



**PHD**

**The dynamics of professional services organizations: A management consulting perspective.**

Diggory, T. J.

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THE DYNAMICS OF PROFESSIONAL SERVICES ORGANIZATIONS

A Management Consulting Perspective

Submitted by T.J. Diggory, MBA(Harv.)., FCCA.,

FCMA., ACIS., FMC(Can.), RIA(Can.)

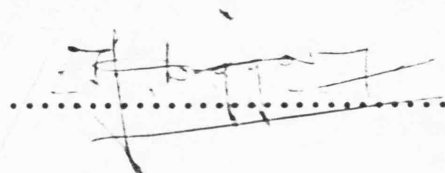
for the degree of Ph.D. of the

University of Bath

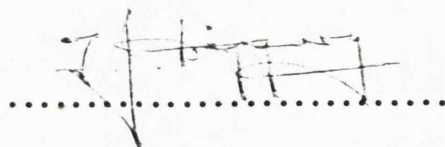
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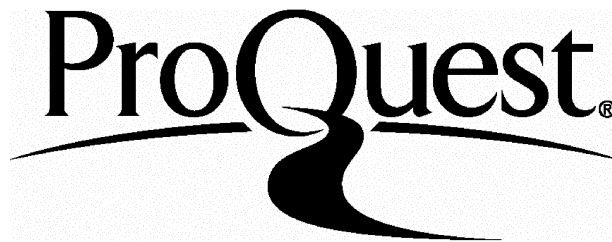
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## ERRATA

### VOLUME I

|          |               |  |
|----------|---------------|--|
| Page IV  | - 10, line 1  | - delete 'discuss'; insert 'discusses'.  |
| Page IV  | - 15, line 26 | - delete 'whcih'; insert 'which'.  |
| Page IV  | - 18, line 16 | - delete 'motiv <u>i</u> ations; insert 'motivations'.                             |
| Page IV  | - 23, line 19 | - delete 'in Chapter V - 177-184 of this text'.                                    |
| Page VI  | - 6, line 9   | - delete 'the Exhibit VI-1'; insert 'Appendix I'.                                  |
| Page VII | - 23, line 18 | - delete 'roles'; insert 'role'.   |
| Page VII | - 24, line 17 | - delete 'indicate a not too surprising'; insert 'indicated not too surprisingly'. |
| Page VII | - 27, line 16 | - delete 'princip <u>a</u> l'; insert 'principle'.                                 |
| Page VII | - 27, line 17 | - delete 'princip <u>a</u> l'; insert 'principle'.                                 |
| Page VII | - 30, line 13 | - delete 'reveal'; insert 'reveals'.   |

### ACKNOWLEDGEMENTS

I would like to thank the many individuals and organizations who have contributed to my experience in this field over the years, and those particularly who have cooperated during the execution of this study. I have much appreciated the guidance received from, and patience shown by, Professors R.E. Thomas and C.R. Tomkins in bringing this lifework to fruition. I am grateful to Mrs. Lillian Nahorney whose skill and dedication to the task of typing and layout of this manuscript has contributed much to its appearance and readability. Finally, the writing of this thesis has only been achieved through the continuing encouragement and unswerving support received from my wife, Elsinore.

THE DYNAMICS OF PROFESSIONAL SERVICES ORGANIZATION

A MANAGEMENT CONSULTING PERSPECTIVE

VOLUMES I and II

SUMMARY TABLE OF CONTENTS

PART 1 SCOPE AND OBJECTIVES OF STUDY AND RESEARCH APPROACH

- Chapter I - Introduction: The Nature of Professional Services Organizations and Objectives of Research
- II - Conceptual Framework
- III - Research Questions and Methodology

PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONS

- Chapter IV - Literature Review
- V - The Management Consulting Industry: Statistical Analysis
- VI - Industry Leaders' Attitudes and Opinions
- VII - Clients' Attitudes and Opinions
- VIII - The Management Consulting Firm: (Volume II) Case Study

PART 3 CONCLUSION

- Chapter IX - Summary of Findings

EXHIBITS (Except Exhibits VIII-1 to VIII-4 in Volume II)

APPENDICES (Except Appendix G in Volume II)

BIBLIOGRAPHY

- Reference Material
- Additional Readings

INDEXPAGE NO.PART 1 SCOPE AND OBJECTIVES  
OF STUDY AND RESEARCH APPROACHI - INTRODUCTION: THE NATURE OF PROFESSIONAL  
SERVICES ORGANIZATIONS AND OBJECTIVES OF  
RESEARCH

|   |      |
|---|------|
| Purpose of the Study                                    | I-1  |
| Why Research is Needed                                  | I-3  |
| Characteristics of Professional Practice                | I-5  |
| Scope of Practice                                       | I-5  |
| Organization  | I-8  |
| Business Development                                    | I-10 |
| General Business Development                            | I-10 |
| Specific Business Development                           | I-11 |
| Business Development Time                               | I-12 |
| Scope of Engagement                                     | I-16 |
| Engagement Planning, Conduct, Control<br>and Completion | I-17 |
| Scope and Objectives of Research                        | I-18 |
| Limitations   | I-23 |
| Organization of Report                                  | I-24 |

## II - CONCEPTUAL FRAMEWORK

|   |       |
|---|-------|
| Framework For Research And Analysis               | II-1  |
| External/Environmental Characteristics            | II-2  |
| Political   | II-2  |
| Economic  | II-5  |
| Social and Cultural                               | II-7  |
| Technological                                     | II-9  |
| Geographic and Physical<br>Characteristics        | II-13 |
| Competitive Forces                                | II-15 |
| Summary   | II-18 |
| Internal/Firm Characteristics                     | II-21 |
| Purpose   | II-21 |
| Resources   | II-23 |
| Organization                                      | II-25 |
| Values  | II-26 |
| Functional Systems                                | II-26 |
| Outputs   | II-29 |
| Firm Structure and Management Processes           | II-31 |
| Strategic Planning                                | II-31 |
| Scope of Practice                                 | II-31 |
| Recruitment Training and Research                 | II-32 |
| Rate Structure                                    | II-33 |
| Market Forecasting                                | II-34 |
| Operational Concepts                              | II-35 |
| Business Development                              | II-35 |
| Organization Structure                            | II-39 |
| Planning and Control                              | II-42 |
| Addendum: Market Forecasting - Mathematical Model | II-45 |
| Economic Influence                                | II-45 |

# INDEX

## PAGE NO.

### PART 1 SCOPE AND OBJECTIVES OF STUDY AND RESEARCH APPROACH (CONT'D)

#### III - RESEARCH QUESTIONS AND METHODOLOGY

|   |        |
|---|--------|
| Approach to Research Design   | III-1  |
| Development of Research Questions                                   | III-4  |
| Methodology to Relate Research Questions<br>to Study Objectives     | III-6  |
| Introduction  | III-6  |
| Review of Existing Literature                                       | III-7  |
| The Management Consulting Industry -<br>Statistical Analysis        | III-8  |
| The Management Consulting Industry -<br>Industry Leaders' Attitudes | III-9  |
| The Management Consulting Industry<br>Client's Opinions             | III-12 |
| The Management Consulting Firm -<br>Case Study                      | III-12 |
| Limitations on Conclusions Generated by<br>the Methodology Used     | III-13 |

### PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONS

#### IV - LITERATURE REVIEW

|  |       |
|--|-------|
| Introduction                               | IV-1  |
| Nature of Professional Services/Consulting | IV-3  |
| External Characteristics                   | IV-11 |
| The Market                                 | IV-11 |
| Strategic Planning                         | IV-13 |
| Business Development                       | IV-14 |
| Internal Characteristics                   | IV-14 |
| Organization Structure                     | IV-14 |
| Management of Human Resources              | IV-18 |
| Key Success Measures/Controls              | IV-22 |
| Conclusions                                | IV-25 |

#### V - THE MANAGEMENT CONSULTING INDUSTRY: STATISTICAL ANALYSIS

|  |      |
|--|------|
| Market Profile                             | V-1  |
| Performance Indicators                     | V-6  |
| Conclusions Relevant to Research Questions | V-7  |
| External Characteristics/Influences        | V-8  |
| The Market                                 | V-8  |
| Strategic Planning                         | V-22 |
| Business Development                       | V-22 |
| Internal Characteristics/Influences        | V-23 |
| Organizational Structure                   | V-23 |
| Management of Human Resources              | V-23 |
| Key Success Measures/Controls              | V-23 |

INDEXPAGE NO.PART 2 DATA SOURCES, ANALYSES  
AND CONCLUSIONS (CONT'D)

## VI - INDUSTRY LEADERS' ATTITUDES AND OPINIONS

|   |       |
|---|-------|
| Introduction to Attitude Survey               | VI-1  |
| External                                      | VI-1  |
| Internal                                      | VI-2  |
| Cross-Tabulation of Results Using             | VI-4  |
| 'T' Test Analysis                             |       |
| The Market                                    | VI-6  |
| Strategic Planning                            | VI-7  |
| Business Development                          | VI-8  |
| Organization Structure                        | VI-8  |
| Management of Human Resources                 | VI-10 |
| Key Success Measures/Controls                 | VI-12 |
| Summary of Findings From 'T' Test Analysis    | VI-15 |
| The Market                                    | VI-15 |
| Strategic Planning                            | VI-15 |
| Business Development                          | VI-15 |
| Organization Structure                        | VI-16 |
| Management of Human Resources                 | VI-16 |
| Key Success Measures/Controls                 | VI-17 |
| Conclusions Relative to Research Questions    | VI-18 |
| Research Questions 1, 2, 3, 4, 5, 6           | VI-18 |
| Research Question 1                           | VI-18 |
| Research Question 2                           | VI-19 |
| Research Question 3                           | VI-20 |
| Research Question 4                           | VI-21 |
| Research Question 5                           | VI-23 |
| Research Question 6                           | VI-25 |
| Factor Analysis to Identify Common Dimensions | VI-28 |
| Summary of Findings                           | VI-34 |
| Factor 1                                      | VI-34 |
| Factor 2                                      | VI-35 |
| Factor 3                                      | VI-35 |
| Factor 4                                      | VI-35 |
| Factor 5                                      | VI-36 |
| Factor 6                                      | VI-36 |
| Factor 7                                      | VI-37 |
| Factor 8                                      | VI-37 |
| Factor Analysis of Consulting Firms Who       | VI-38 |
| Are Aligned With Public Accounting Firms      |       |
| Factor 1                                      | VI-39 |
| Factor 2                                      | VI-40 |
| Factor 3                                      | VI-41 |
| Factor 4                                      | VI-42 |
| Factor 5                                      | VI-43 |
| Factor 6                                      | VI-44 |
| Factor 7                                      | VI-44 |
| Factor 8                                      | VI-45 |
| Summary of Findings                           | VI-46 |
| Factor 1                                      | VI-46 |
| Factor 2                                      | VI-47 |



INDEXPAGE NO.PART 2 DATA SOURCES, ANALYSES  
AND CONCLUSIONS (CONT'D)

## VI - INDUSTRY LEADERS' ATTITUDES AND OPINIONS (CONT'D)

|          |       |
|----------|-------|
| Factor 3 | VI-47 |
| Factor 4 | VI-47 |
| Factor 5 | VI-48 |
| Factor 6 | VI-48 |
| Factor 7 | VI-49 |
| Factor 8 | VI-49 |

## VII - CLIENT'S ATTITUDES AND OPINIONS VII-1

|   |        |
|---|--------|
| Introduction  | VII-1  |
| Responses to Interview Questions                        | VII-3  |
| Question 1  | VII-3  |
| Question 2  | VII-5  |
| Question 3  | VII-6  |
| Question 4  | VII-7  |
| Question 5  | VII-9  |
| Question 6  | VII-10 |
| Question 7  | VII-12 |
| Attitudes Relevant to Research Questions                | VII-15 |
| The Market  | VII-15 |
| Strategic Planning                                      | VII-15 |
| Business Development                                    | VII-16 |
| Organization Structure                                  | VII-16 |
| Management of Human Resources                           | VII-17 |
| Key Success Measures/Controls                           | VII-18 |
| Summary and Conclusions                                 | VII-20 |
| External Characteristics/Influences                     | VII-22 |
| Research Question No. 1 (Market)                        | VII-22 |
| Research Question No. 2 (Strategic Planning)            | VII-23 |
| Research Question No. 3 (Business Development)          | VII-25 |
| Internal Characteristics/Influences                     | VII-26 |
| Research Question No. 4 (Organization Structure)        | VII-26 |
| Research Question No. 5 (Management of Professionals)   | VII-30 |
| Research Question No. 6 (Key Success Measures/Controls) | VII-32 |

## VIII - THE MANAGEMENT CONSULTING FIRM: CASE STUDY (Volume II)

|                                     |         |
|-------------------------------------|---------|
| Able, Baker and Associates (ABA)    | VIII-1  |
| Management Consultants              |         |
| History of the Organization         | VIII-1  |
| Professional Constraints            | VIII-10 |
| Organizational Advantages           | VIII-12 |
| External Characteristics/Influences | VIII-14 |
| Growth and Share of Market          | VIII-15 |
| Total Firm                          | VIII-15 |
| Regional Performance                | VIII-16 |
| Functional Performance              | VIII-17 |

INDEXPAGE NO.PART 2 DATA SOURCES, ANALYSES  
AND CONCLUSIONS (CONT'D)

## VIII - THE MANAGEMENT CONSULTING FIRM: CAST STUDY (CONT'D)

|                                     |         |
|-------------------------------------|---------|
| Growth Characteristics              | VIII-18 |
| Sectoral                            | VIII-19 |
| The Market                          | VIII-27 |
| Strategic Planning                  | VIII-27 |
| Business Development                | VIII-28 |
| Internal Characteristics/Influences | VIII-29 |
| Organization Structure              | VIII-29 |
| Management of Human Resources       | VIII-34 |
| Organizational Developments         | VIII-34 |
| Management of the Practice          | VIII-43 |
| Summary                             | VIII-47 |
| Key Success Measures/Controls       | VIII-50 |
| Strategic (Performance Indicators)  | VIII-52 |
| Operational (Financial)             | VIII-55 |
| Expense Analysis                    | VIII-55 |
| Profitability                       | VIII-55 |
| -Total Firm                         | VIII-56 |
| -Regional                           | VIII-57 |
| Operational (General)               | VIII-62 |
| Conclusion                          | VIII-69 |

PART 3 CONCLUSION

## IX - SUMMARY OF FINDINGS

|                                    |       |
|------------------------------------|-------|
| Summary of Research Results        | IX-8  |
| Opportunities for Further Research | IX-12 |

EXHIBITS

| <u>NO.</u> | <u>TITLE</u>                                       | <u>PAGE NO.</u> |
|------------|--|-----------------|
| I-1        | Scope of Practice Brochure                         | I-6             |
| II-1       | Conceptual Framework                               | II-1            |
| II-2       | Business Development Hours/Prospective Engagements | II-36           |
| II-3       | Annual \$ Acceptance/Chargeable Hours Cycle        | II-37           |
| II-4       | Organization Structure/Concept of Constituencies   | II-39           |
| II-5       | Economics of Practice                              | II-44           |
| III-1      | Conceptual Framework Expanded                      | III-1           |
| III-2      | CAMC Membership Requirements                       | III-3           |

INDEXEXHIBITS

| <u>NO.</u> | <u>TITLE</u>                                    | <u>PAGE NO.</u>    |
|------------|---|--------------------|
| V-1        | Statistical Analysis of CAMC Operations         | V-2                |
| V-2        | Guideline Descriptions: Management Functions    | V-3                |
| V-3        | CAMC - Market Profile - Growth Characteristics  | V-8                |
| V-4        | Gross Billings - 1971-1978: ABA/CAMC            | V-9                |
| VIII-1     | Chronology of the Firm                          | VIII-3 )           |
| VIII-2     | Organization Chart                              | VIII-5 ) Volume II |
| VIII-3     | ABA Market Share of Total CAMC Chargeable Hours | VIII-26)           |
| VIII-4     | ABA - Total Expense Analysis                    | VIII-55)           |

APPENDICES

| <u>NO.</u> | <u>TITLE</u>                                  |
|------------|---|
| A          | CMC/ABA Gross Billings - By Region            |
| B          | CMC/ABA Gross Billings - By Function          |
| C          | Attitude Survey of Industry Leaders           |
| D          | Factor Analysis of Attitude Survey            |
| E          | Factor Analysis of Aligned Firms              |
| F          | Questionnaire to Users of Consulting Services |
| G          | ABA Expense Analysis by Region (Volume II)    |
| H          | Tables and Graphs of CAMC/ABA                 |
| I          | Industry Leaders' Survey: 'T' Test Results    |

BIBLIOGRAPHY

|    |  |
|----|--|
| I  | Reference Material Quoted in Thesis      |
| II | Additional Readings Not Quoted in Thesis |

PART 1   SCOPE AND OBJECTIVES OF STUDY  
AND RESEARCH APPROACH

I - INTRODUCTION: THE NATURE OF  
PROFESSIONAL SERVICES ORGANIZATIONS AND  
OBJECTIVES OF RESEARCH

PURPOSE OF THE STUDY

After some 28 years experience in a consulting environment, the author of this research paper has been encouraged by colleagues and others to synthesize his understanding of the dynamics of this type of business. Over the past 8 years particularly, the author has undertaken several isolated pieces of research on various aspects of the market as well as on critical variables in the operation of the business. The results of this past research have been incorporated in this paper supplementing the data gathering and analysis necessary to a comprehensive treatment of the whole subject.

Professional services are considered a part of the total services sector in the national economy, a sector which has experienced considerable growth since the dawn of the Industrial Revolution. However, most of the services included in this sector, unlike professional services, relate in one way or another to the delivery of a primary or manufactured product to the consumer. They form a part of the distribution chain linking raw material through its various conversion processes to an end product which finally reaches the consumer through retail outlets. There is one thing which all such activities have in common namely, they are dealing with a tangible product, a 'hard' good.

The product, in whatever stage of its processing, has to conform to certain specifications as to size, shape, and colour, which make it recognizable and therefore acceptable to a customer. The services involved in support of these activities largely concern themselves with 'breaking bulk', 'granting credit', and moving the product from one place to another so that it reaches the hands of the customer. The part of the services sector, described and analyzed in this research paper, differs significantly from that described above. The 'product' involves the application of the skills and experience of individuals to the solution of problems. The application of skills and experience are collectively called 'professional services' and the type and level of skill as well as the depth of experience is unique to each individual providing such services. Such services should also be distinguished from 'personal' services, e.g. hairdressing, which typically involve the use of manual skills acquired during apprenticeship to a trade. The customer or client or patient in receipt of professional services by contrast, is obliged as 'an act of faith' to trust the practitioner to deliver such services to the best of his ability and in accordance with standards of quality which can only be vaguely and generally defined.

In an attempt to reduce the level of uncertainty in the mind of the customer, or client, or patient, in the standards of quality built into the service being provided, various skill groupings have, over the years, banded together to form 'professions'. The older professions of medicine and law first saw the need to establish standards of professional conduct and standards for quality of service in order both to reassure the patient or client and reduce his uncertainty, but also to protect the reputations of the members of the profession from

less scrupulous practitioners. The hallmarks of the professional are integrity, objectivity, competence, and dedication to all that is best in his field. Most professions protect themselves by licensing arrangements and by examinations for competence which restricts entry and enables members to regulate the affairs of the profession toward the maintenance of agreed upon standards. The older professions such as medicine and law have become sufficiently well established and their services sufficiently 'specified' that what they do can be recognized and understood by the customer, client or patient such that their fees for services rendered are established as for any 'hard good' and until recently have not been subject to debate or negotiations. However, one sees the beginning of competition creeping into these older professions in North America brought on by consumerism where the validity of the fees charged by some practitioners have been challenged through litigation. Advertising in a somewhat more blatant manner is now permissible in some professions but the merits or otherwise of this change in attitude toward professionals and 'scale fees' is not the subject of this paper. Rather, its focus is on the newer and emerging professions whose 'product' or services is still not, and possibly never can be, very precisely specified.

#### Why Research Is Needed

This research has therefore been prompted by a certain lack of information about and an understanding of the newer 'breed' of professionals rendering personal services who have emerged in this century and whose growth has accelerated very rapidly since World War II. I refer particularly to management consultants, who are only just emerging as professionals and where the right of entry to

the profession is not restricted by licensing, and I refer also to other types of professionals, notably consulting engineers, pension consultants, executive search consultants, transportation and urban planners, computer specialists, all of whom have this in common, 'they provide professional services to clients and these professional services are a combination of skill and experience which they bring to bear on client problems and provide advice toward a solution'. Some of the foregoing are problem solvers others are 'change agents', while others are brokers (search consultants), and yet others are management counsellors (a second opinion).

On the face of it, this wide variety of individuals who provide professional services cannot have much in common except that they provide a professional service. The author believes however, that it is worthwhile exploring the field of management consulting because many of the activities described above are of a professional or quasi professional nature and are fairly often to be found in a management consulting organization and such an organization in its scope of practice describes these services.

Having differentiated between those in the service sector who deal with 'hard' goods and those who provide services, and having also differentiated between those who provide services belonging to older and well established professions where the services are specified and understood, from those where it is less understood, the author of this research felt that a greater understanding of this less well defined area of the services sector might best be achieved by developing a conceptual framework. This framework is intended to be descriptive to some lesser extent, and explain the interaction of such

businesses with the market for their services, and the influences affecting both the size of the market and the size of the practitioners' practice. Beyond this, it is hoped to raise a number of questions or issues about the market and the business, answers to which might explain possible business scenarios within which a professional services organization can operate. The framework might therefore serve as a planning tool in furthering the interest of the practice.

### CHARACTERISTICS OF PROFESSIONAL PRACTICE

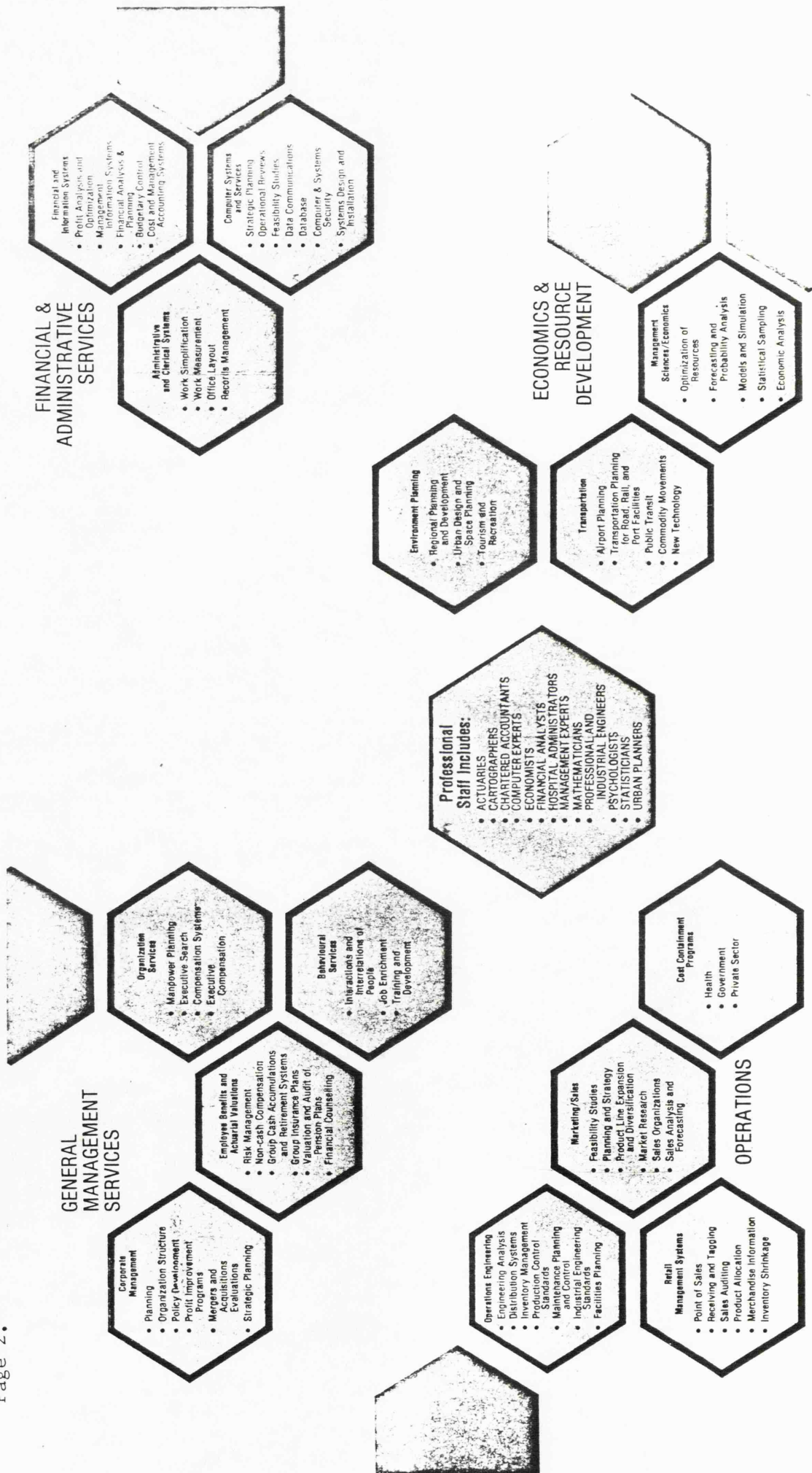
In this Section, under appropriate headings, I have developed a profile of a 'professional services organization' using a management consulting firm as a model.

#### Scope of Practice (Product Definition)

What is the nature of services offered by a management consultant; a lawyer; a consulting engineer; a marketing specialist, etc? How does a prospective client make his selection relative to the type of service he needs?

The reputation of individuals and firms in the market arising from past work for other clients is obviously a factor. However, as with a product which is tangible, so with 'soft' services, there is a need to describe and specify the nature of the products/services being offered and where possible attempt to differentiate each product/service from similar products/services offered by competitive organizations.





## THE PROFESSIONAL SERVICES OF

is one of the most diversified management and technical consulting firms in Canada. Owned and operated by Canadians, has provided analytical and action-oriented services to both the public and private sectors in Canada and abroad since 1954.

A staff of 140 professionals in six offices across the country serve local clients directly while the full resources of the Firm nationally are always available. Furthermore, as part of Chartered Accountants, is able to work with affiliated firms around the world to meet the needs of clients wherever they may operate. Our rationale is to provide the right person for the job, no matter what the location.

organizational structure concentrates skills in the functional areas of General Management Services, Operations, Financial & Administrative Services, and Economics & Resource Development. These skills are then blended through an interdisciplinary approach to provide a comprehensive range of client services.

Separate industry groups also form an integral part of our consulting practice. These include:

- education
- health
- financial institutions
- merchandising
- hospitality
- regulatory industries.

In addition we have recognized that consulting for government — federal, provincial and municipal — requires expertise in the areas of policy planning, program design and evaluation, economic analysis, and social and development studies.

A partial listing of our services is shown on the reverse side of this folder.

## OUR APPROACH TO MANAGEMENT CONSULTING

We believe that there are certain prerequisites to a successful consulting engagement:

- a mutual understanding of the objectives and benefits sought
- an agreement as to the scope of and the general approach to an engagement
- an agreement as to the nature and extent of a client's participation in an engagement
- an estimate of the time needed by us to perform our work properly.

Before we commit ourselves to an engagement, we undertake a preliminary investigation to satisfy ourselves that the agreed goals can be achieved.

Every engagement is carried out under the personal direction of a partner who is thoroughly versed in the services involved. The personnel assigned to the work are drawn from those members of our permanent consulting staff who possess the particular skills and experience required.

Our clients receive progress reports at mutually agreeable intervals. At the conclusion of an assignment, findings and recommendations are first presented orally and then in writing. If clients so request, we will assist in the implementation of our recommendations.

## OUR UNDERSTANDING OF MANAGEMENT'S NEEDS

The nature of management is such that outside professional consultation is needed:

- to provide expert knowledge and experience not available within a client organization
- to assist in developing and/or implementing a desired course of action
- to give an independent, objective, second opinion
- to solve complex problems through research and analysis
- to handle short-term, peak-load projects so that a client need not hire additional personnel at the operating and management level.

These management needs indicate some of the varied roles that consultants adopt in assisting clients. A more complete statement of our understanding of the management process and of management needs is set out in our brochure, "The Nature of Management".

## PROFESSIONAL SERVICES

### THE OFFICES OF

**Montreal:**

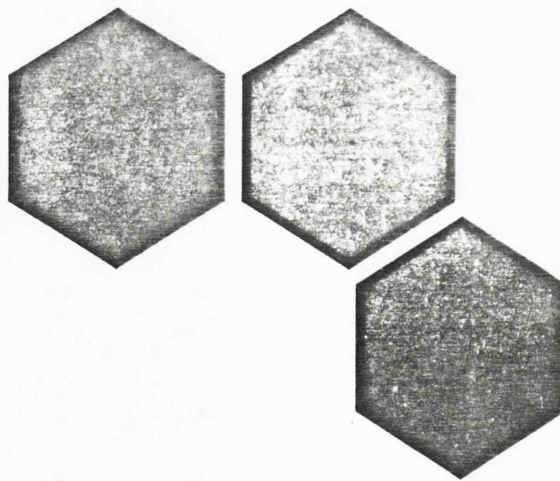
**Ottawa:**

**Toronto:**

**Calgary:**

**Edmonton:**

**Vancouver:**



1M-779 CONS.

MANAGEMENT CONSULTANTS

Source: Case Study Firm: Able, Baker and Associates, (ABA)

Service organizations and particularly management consultants, auditors, architects, lawyers and others project to the market their areas of specialization either by word of mouth at one extreme to very detailed and comprehensive brochures at the other extreme. However, common to all such organizations is a written or unwritten code of professional conduct which deters individuals and firms from blatant or self-laudatory promotion of services. Herein lies a fundamental difference in marketing approach between selling of 'hard' products and the development of professional service opportunities.

An illustration of the brochure approach to the promotion of professional service opportunities is illustrated in the Exhibit I-1. It is noteworthy in that it is largely descriptive material setting out the range of services offered by the organization, implicit in which is the presence on staff of underlying skills and experience, capable of undertaking assignments within the prescribed scope of practice.

A professional services firm and particularly one which undertakes assignments for clients as the major part of its activity, that is, as distinct from purely advisory services on an 'as required' basis under a retainer type arrangement, can be compared in some respects to an engineering 'job shop' company in the manufacturing sector. Such a firm or company has no finished inventory as such, nor can it accumulate finished inventory, since its end product is tailored to satisfy a client's or customer's specific requirements. Each assignment or contract is initiated in accordance with a client's or customer's order and subject to specifications mutually agreed

upon either expressed in the form of terms of reference for a consulting assignment or engineering specifications in the case of the job shop. Such inventory as these two types of organization have is almost completely in 'work in process' which in the case of a professional services organization, specifically management consulting, is referred to as 'backlog'.

Using this analogy it is perhaps easier to understand a professional services firm's scope of practice and the extent that this can be modified or added to in a strategic sense, as clients needs change or indeed as the shape of the market overall changes. As with the engineering job shop so with a consulting firm, it has certain types of 'product' which it is accustomed to putting together and delivering. Each individual product is likely to be unique in several respects but in broad terms will have common features with similar products which have been delivered in the past. The easiest examples to visualize in a consulting context are an executive search, a computer feasibility study, a marketing study, an employee benefits package, an organization study, a healthcare needs study or a transportation planning study.

It is reasonable for prospective clients to expect, and a responsibility of the practitioner to deliver, the required level of expertise and experience implied in the scope of practice. More than this, the scope of practice of an individual or firm, whether projected orally or in writing, represents a profile of the range of skills and experience which a reasonably informed prospective client might expect. Unlike a tangible product, which can be weighed, tested or measured against certain criteria, it behooves the

professional to promise only that type and level of service which he can deliver, and the prospective client to satisfy himself in advance that there is a reasonable expectation that what he is buying will satisfy his needs.

This is the essential difference between services and products. It calls for more integrity on the part of the practitioner and more faith on the part of the client.

### Organization

Organizations which deliver professional services range in size from the sole practitioner to firms having several thousands on staff. While a few choose to incorporate as limited companies, the majority, by virtue of regulations of professional associations to which staff members belong, associate together in partnerships with unlimited liability. In the larger partnerships, however, while their legal form is that of partnership, the operational structure, for reasons of everyday efficiency and practical necessity, follows the corporate form (Board of Directors, President, Vice Presidents, Regional Managers, etc., etc.). Since all executives are partners in the final analysis; this structure is developed through an electoral process which is subject to review and revision at periodic intervals (every two, three, or five years for example). In theory at least, any partner, whatever his corporate rank, has power to sign the firm's name and thereby bind his partners to commitments deemed to be in the ordinary course of business. In practical terms partners typically agree to vest the more significant powers to bind the firm in the senior executive partners or 'Board' members.

Given the partnership form of organization and modifications thereof for practical purposes, how does it function operationally? Whether it be a sole practitioner, or a firm with hundreds of partners, the business of the firm revolves around three main activities:

- Developing new business.
- Executing confirmed assignments.
- Administering the affairs of the partners.

Developing new business is a primary responsibility of partners assisted by support staff as necessary.

Executing confirmed assignments remains the ultimate responsibility of partners but the work is typically carried out largely by non-partners under the supervision of partners whose experience and expertise is injected as required. Organizationally, one finds two or three levels of professional staff related to the experience and expertise of the individual staff member. All professional staff, including partners, are supported by technical and secretarial staff appropriate to the nature of the work of the individual firm as reflected in its scope of practice. Client assignments are staffed from the 'pool' of professional staff, drawing on one or more staff members dictated by the size and nature of each assignment and the type and level of expertise required. Services rendered to clients are billed, based on time spent by the professionals involved.

Administration of the affairs of the practice is typically in the hands of relatively few individuals working full-time, but is in the

hands of many practitioners (primarily partners) on a limited part-time basis. While the profitability of professional services rendered must be safeguarded, the preoccupation of professional staff in this type of business, is developing new business and carrying it out at the right price and on time. Service to clients and prospective clients is the priority, in the confident expectation that this will sustain the practice and its level of profitability.

### Business Development

Business development is the 'front end' of the activities of professional services firms; its focus is to obtain client engagements. Generally, development activities can be divided into two major categories:

- General business development which includes publishing articles, surveys and studies, conducting seminars, undertaking speaking engagements on topical issues related to the firm's scope of practice, and membership in clubs, community organizations, all designed to give visibility to the firm's activities in the area.
  
- Specific business development which involves the negotiation process for a prospective client.  
The negotiation process can be subdivided into a number of stages, as discussed below.

### General Business Development

The more senior and experienced professionals in these types of organizations are usually encouraged to write papers, deliver

speeches, and participate in community activities as a means of creating goodwill toward the firm and its principals and indirectly providing entrees to prospective clients. At the same time, professional services firms have an obligation to adhere to the highest ethical standards in their promotional activities. Practices and acts should be avoided which are undignified or unprofessional, or which might discredit or do injury to the firm or the profession being practiced.

By presenting factual information in a professional and dignified way, this is usually considered to be the best approach to gaining the respect and confidence of the community being served by the firm. In general, adherence to fairly strict professional and ethical standards in the handling of promotional activities contributes to the development of an image of integrity, dignity, and professionalism which are usually the qualities which prospective clients look for in professional services organizations.

#### Specific Business Development

This subsection outlines the various stages in the negotiation process which are fairly common to professional services firms. Effective communication, written and oral, is an essential part of the following process:

- identifying the prospective client's needs
- analyzing the engagement requirements
- matching skills required and approach most appropriate to meeting the above needs



- selling the skills and approach by specifying scope, staffing and cost of the proposed engagement.

It follows that in any approach to prospective clients, the professional should demonstrate his dedication to the profession he represents and also his concern for, and his sensitivity to, the prospective client's needs. More than this, development efforts should only be directed to those potential clients who seem to have a need for professional services.

The hallmark of development activity of the professional services firm is that it is informative, without self-acclaim or disparagement of competitors. Competence, integrity, objectivity, independence, and a sense of responsibility are the characteristics a prospective client looks for in seeking out the professional and this in turn influences the ongoing relationship with a client throughout the process.

#### Business Development Time

Time and how it is used is the essence of a professional services business. It is a wasting asset; once lost, never recovered. Using time effectively, therefore is critical both in a professional and commercial sense. Professionally, the emphasis is on serving clients to the best of the firm's abilities in the time available, in both an individual and collective sense. Commercially, it is achieving the right balance in time spent individually and collectively between the following activities:

- chargeable to client
- business development
- professional development, training  
and research
- management and administration.

While time spent on professional development and management is an essential part of the total process, the focus, in the short term, must be in achieving a proper balance between business development, and time spent on chargeable activity. Specifically, it is determining how much time should be spent on business development, individually and collectively as a firm, and how to monitor and control this time effectively and efficiently.

The development of new clients and therefore new business, from a first contact with a prospective new client, through to drafting a Letter of Proposal or contract, is generally the responsibility of the more senior and experienced professionals in the organization. It is a matter of experience and aptitude and it is also a function of skill in communication, both oral and written. Pragmatically, it is the ability to 'sell' the firm's services, having identified the prospective client, determining his needs and articulating these needs orally and in writing in such a manner that success is achieved at some minimal acceptable level. It obviously makes no sense in the professional services type of business to devote as much time developing business as is spent in carrying it out. What is important, is that the responsibility for business development is in the hands of those who can use time spent most effectively (successfully).

Factors influencing the amount of time which should be spent in practice development is a complex question involving a number of interacting variables as follows:

1. What is the approximate size, in chargeable hours, of the proposed engagement?
2. Is the engagement 'sole source' or competitive?
3. What is the probability of success under either condition, and more particularly, what is the probability of success in the competitive situation having in mind the number and significance of the competitors?
4. Can the probability of success be improved, marginally, by the expenditure of more time?

Related to the foregoing are the following questions:

- What are the firm's short and long term objectives as between growth and profitability?
- In the immediate future, what is the backlog of work, staff loading, and availability of staff by skill grouping and experience?
- Is there currently an overstaffed or understaffed situation in any particular area of expertise?

- What recruitment plans for new staff are in process?
- What are the immediate conditions in the market - economically and competitively?
- What is the mix of new business activity currently as between competitive/sole source opportunities and also as between private/public sector?
- What objectives have been set for the firm in its mix or profile of clientele?
- How well is the rate structure holding up in the market under current economic conditions?

These and other considerations bear directly and indirectly on the time a firm can afford in business development.

Based on the foregoing factors and also an intuitive 'feel' on how far to commit effective business development time in pursuing prospective engagements, broad guidelines must be developed in any firm to ensure that a satisfactory volume of business flows into the organization such that a satisfactory level of profitability can be achieved, certainly in the longer term.

In summary, at the outset, in examining any opportunity with a prospective client, practice development time must be focused on 'realistic' opportunities and handled by those resources on staff who have demonstrated 'selling aptitudes' in oral and written commun-

ication. Monitoring the use of time in practice development has to be a critical factor in developing a success formula for a professional services firm.

#### Scope of Engagement

In developing new business with prospective clients, the point must ultimately be reached when the professional services firm must commit itself to a statement as to what services it will provide, what time it will take, what levels of staff will be used, and how much the service will cost. Whether the service to be provided is of the 'open-ended' per diem advisory type of service or whether it is an engagement for a fixed fee, it is generally regarded as good professional practice for a commitment to be made in writing to a prospective client of the overall understanding of the engagement. This is the basis of the contract. This commitment to writing is most commonly incorporated in what is referred to as a 'Letter of Proposal' which is the basis for the professional work. It documents the agreed definition of the problem or the service to be provided, and clearly sets out the program proposed. Once accepted by the client, the letter becomes a contract for professional services within the terms and conditions specified, and is binding, unless and until it is renegotiated, except for conditions demonstrably beyond the control of the firm.

Because of the critical importance of the Letter of Proposal which embodies the terms of reference for the service to be provided, it is essential that the commitment to provide such services should be delayed until 'all the information is in'. During the negotiation process with the prospective client, one of the major tasks is to

gather as much information about the client organization and about the nature of the problem as to be able to make a realistic assessment about the time necessary to solve the problem or render the service. The Letter of Proposal marks the conclusion of the negotiation process and is the 'moment of truth' when there truly should have been a 'meeting of minds' between the firm and the client about the objectives, methodology, and fees, involved in the prospective assignment.

All of the foregoing activity involves time spent which cannot ordinarily be charged to a client. As indicated above, it is essential that each prospective engagement be judged as to the probability of success vis-a-vis competitive forces, the availability of appropriate staff, the prospective size of the engagement, and the price sensitivity of the client, in making a final judgment as to whether to spend time developing the opportunity and if so, what time to spend.

#### Engagement Planning, Conduct, Control and Completion

These are the operational characteristics of a professional services firm's business. A primary concern must obviously be to provide the highest quality of professional service within the terms of reference specified in the Letter of Proposal. A secondary concern must be the underlying commercial aspects thereof, namely, to complete engagements within the time specified using an appropriate blend of staff so that costs of providing services fall within the estimate of fees provided to the client.

Some reference has already been made earlier in this section on how the organization of a professional services firm operates as between

the various hierarchical levels of professionals. More detail on operational characteristics of handling engagements and the critical aspects thereof are provided in Chapter II of this paper.

#### SCOPE AND OBJECTIVES OF THE RESEARCH

As indicated in a preceding section of this chapter, the following types of professional service businesses are considered as falling within the scope of this paper:

- consulting organizations
  - . management consultants
  - . consulting engineers
  - . marketing consultants
  - . executive search consultants  
(except contingency services)
  - . consulting architects (excluding  
those whose fees are a percentage of  
a building contract)
  - . employee benefits consultants
  - . other specialist consulting services.
- auditors and accountants
- tax consultants
- lawyers (except for services with  
scale fees)
- advisory services in a wide variety of  
other specialist fields.

Common characteristics of all of the foregoing types of businesses are as follows:

- Services are sold on the basis of time spent in serving clients (per hour, per diem, etc.)
- Rate structure for services rendered (per hour, per diem) are determined by reference to the skill and experience of individuals providing these services.
- For the most part, those who are rendering such services are professionally qualified or are under the guidance of those who are.
- Customers are generally referred to as clients since advisory services are being provided rather than the tangible 'hard' product.

The foregoing types of professional services businesses tend to fit the general description of the area proposed for research in the preceding section of this chapter. Most of the services provided by the foregoing types of organization have emerged in the Twentieth Century and have gained increasing acceptance in the market and enjoyed strong growth, particularly since World War II. While some of the practitioners in the foregoing businesses have recognized professional designations, in most cases the services which they provide cannot be described very precisely. The client is obliged to rely on the reputation which the practitioner has developed in



working with previous clients and on 'word of mouth' advertising. The client is obliged to rely on 'faith' and integrity of the practitioner and is far less certain that the end product of the services will in fact produce the required result either in terms of good advice, the solution to a problem, or an improved position for the client in whatever business he is engaged.

It seems to the author therefore, that all such activities, all of comparative recent vintage, call for an 'act of faith' on the part of the public in availing themselves of such services and would therefore justify this piece of research to improve understanding of the nature of such businesses and the way in which they generally operate. The research would also seem to be worthwhile so that the public and particularly the 'buying' public is aware of the underlying commercial aspects of professionals in practice. While professionals generally subscribe to a code of ethics and standards of conduct and pride themselves on their integrity and objectivity, one must nonetheless not lose sight of their need to stay in business. In the effort to stay in business they are no less guided by commercial instincts involved in selling their services at a profit than any other commercial enterprise. However, since the buyer of such services has less to rely on in terms of the nature of the product to be delivered, it seemed to the author worthwhile to improve, through this research, the understanding of how such businesses operate and the risks associated therewith so that the buyer is not unduly misled by the words 'professional' or 'consultant'. An expert, be he professional and/or consultant provides only that quality and level of service derived from his skill and experience as a function of the strength of the organization which supports him.

This perhaps is the underlying purpose of my research and I would hope that subsequent chapters meet that purpose.

In summary, the following broad objectives are expressed in very general terms in order to convey an overall understanding of the major thrusts of the research. It is understood that as the study progresses and more detailed information is assembled and analyzed more precise questions or issues will be raised and tested to achieve each of the objectives set out below.

1. To develop a better understanding of the market for professional services and more particularly management consulting services. This objective would seem to flow naturally from that which has already been said in the preceding subsection.
2. To identify and define such relationships as might exist between the market for management consulting services and changes in the environment in which it operates. To examine distinct features of professional services businesses to identify the need for continuance of product/market development as well as the management of operations. The environmental influences on this market are many and varied, not the least of which are changes in political, social, and economic conditions, competitive moves, technological change, and shifts in the patterns of regional, national, and international trading patterns.

3. To identify as far as possible determinants of market shares of businesses operating in the professional services sector using management consulting as a specific case.
  4. To examine the operation of a professional services business in terms of its costs of doing business in order to isolate those factors which are most significant in the operation of the business and which are both sensitive and critical to changes in the market and therefore influence most directly the profitability of the business. It seems to the author that in describing how a professional services business operates it is important to understand the extent to which one can match revenue and costs in the short and longer term and be able to change costs either in the short or longer term to achieve a satisfactory bottom line. Some costs, not surprisingly, are relatively fixed within wide ranges of revenue while other costs can be varied quickly given changes in revenue; such changes are likely to affect longer term profitability.
  5. To develop a conceptual framework which describes the environment in which professional services businesses operate; to develop the framework such that there is an understanding about the nature of the market for professional services
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## 5. Continued...

and specifically management consulting and how this market emerges and its various characteristics; to explore influences affecting the size of the market and the share of that market which a business might enjoy; and finally to identify those things which such a business must do well in order to achieve a satisfactory return on the capital employed. This final objective is the author's approach to describing the overall conditions affecting professional services activities and through this research it is hoped to examine a number of concepts and issues to validate the experience of the author.

LIMITATIONS

The author of this research paper would not presume to suggest that the finished work contains all of the answers to all of the questions which might arise in the setting up and operation of a professional services business. As Chapter II will illustrate, such businesses have many complexities and are subject to continually changing external and internal influences in a dynamic environment. In one sense such businesses are relatively easy to manage in that there are comparatively few success factors as measures of performance. However, one is dealing with many intangibles in a professional services business, both externally in the marketplace and internally along the behavioural and skill dimensions such as to make the task of matching internal resources to external needs almost a 'task of futility'.

Rarely is it possible to duplicate the conditions existing in a client organization and existing in the resources of a professional services organization where an engagement is underway as against those same conditions which existed at the time when the engagement was negotiated, sometimes a time lapse of weeks or even months.

However, it is hoped that through this research, particularly its descriptive and to some lesser extent its prescriptive nature, the reader will derive a fuller understanding of the nature of this type of business and the author will have been able to uncover certain key factors related to the operating characteristics of such a business. It is also hoped that the end result will be sufficiently definitive as related to one type of professional services business as to prompt others to carry the research further into other types of professional services activity.

#### ORGANIZATION OF THE REPORT

With the foregoing as background and a general introduction to the proposed research into professional services organizations, specifically management consulting, this report is structured in such a way as to enable the reader to start from a general conceptual framework for the research and an understanding of the methodology used to address a number of research questions. This is followed by a review of existing literature; collection and analysis of industry data and opinions; interviews with a selection of clients of consulting firms; and an indepth study of a case study firm; leading finally to certain general conclusions about the subject area.

The report is organized into three parts:

- Part 1 - Scope and Objectives of Study and Research Approach;
- Part 2 - Data Sources, Analyses and Conclusions; and
- Part 3 - Conclusion.

Part 1 contains three chapters:

- Chapter I - Introduction: The Nature of Professional Services Organizations and Objectives of Research;
- Chapter II - Conceptual Framework; and
- Chapter III - Research Questions and Methodology.

Part 2 has five chapters:

- Chapter IV - Literature Review;
- Chapter V - The Management Consulting Industry: Statistical Analysis;
- Chapter VI - Industry Leaders' Attitudes and Opinions;
- Chapter VII - Clients' Attitudes and Opinions; and
- Chapter VIII - The Management Consulting Firm: Case Study. (Volume II)

Part 3 has one chapter:

- Chapter IX - Summary of Findings.

The foregoing is supporting by facing Exhibits throughout the text and a number of Appendices and a Bibliography appearing at the end of the text.

The next Chapter (Chapter II), therefore describes the conceptual framework used in the research. It deals with external/environmental characteristics affecting the management consulting industry and internal/firm characteristics influencing the behaviour and performance of firms operating in the consulting market. These two sets of characteristics are then linked together conceptually in a discussion of how a firm's structure and management processes as evidenced in its strategic planning and operational style produces the interaction leading to success or otherwise of its activities.

Chapter III describes the approach to research design, the development of research questions and the methodology which seems most appropriate to relate the research questions to the study objectives. Certain limitations on the conclusions which might be generated by the methodology used are also noted.

Chapter IV, which is the first chapter in Part 2 of the report, deals with a review of literature across several disciplines as this would appear relevant to the research questions and the characteristics of professional services organizations.

In Chapter V the author examines performance data of a number of management consulting firms in the industry who collectively are members of the Canadian Association of Management Consultants. These data cover an 8 to 9 year period in the 1970's and are useful in providing several profiles of the market for consulting services and a source of information about primarily external characteristics/influences in the market which would appear to affect performance of the industry.

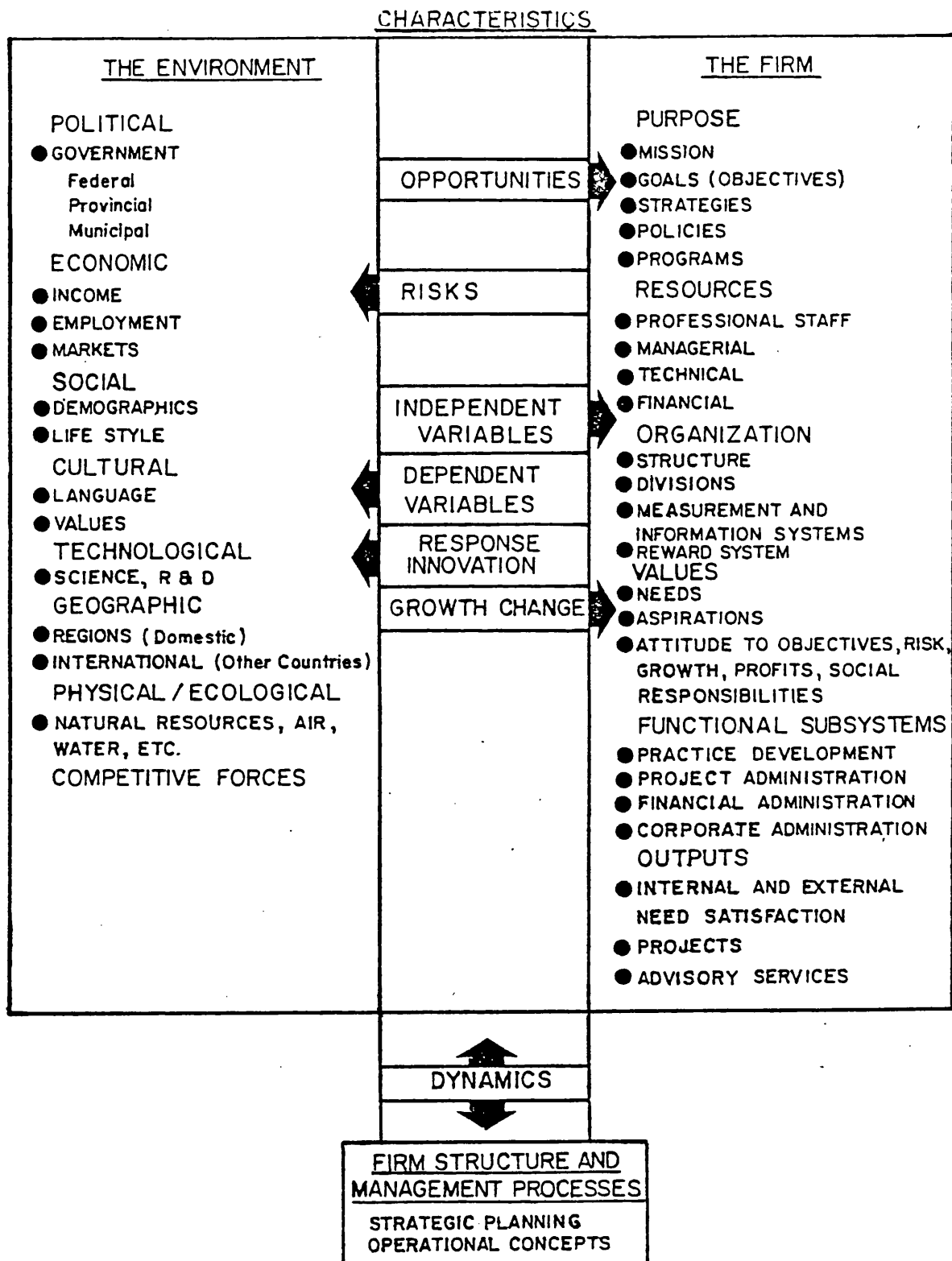
Chapter VI describes the results of an attitude survey of industry leaders and Chapter VII the attitudes and opinions of a selection of clients of the case study firm.

Finally, in Chapter VIII a case study firm operating in the industry is examined in depth tracing its history over a 25 year period and analyzing its performance over a 10 year period, endeavouring to identify cause and effect relationships with particular reference to the industry data and opinion and related directly to the research questions.

In Part 3, the conclusion of the report, Chapter IX contains the summary of findings related to the research questions which have been set, relating these back to the original objectives contained in this chapter. Further areas for research are identified which the author and others might care to explore beyond the limits of this report.



# CONCEPTUAL FRAMEWORK OF THE PROFESSIONAL SERVICES FIRM AND ITS ENVIRONMENT



## References

Thain (1978)  
 Christensen et al (1978)  
 Steiner et al (1977)

PART 1 SCOPE AND OBJECTIVES OF STUDY  
AND RESEARCH APPROACH (CONT'D)

II - CONCEPTUAL FRAMEWORK

The broad objectives and scope of this research have been described in the preceding chapter. Before embarking on the research itself, I have developed a conceptual framework which I believe will best describe the process in the professional services industry in general, and more specifically, the management consulting sector.

FRAMEWORK FOR RESEARCH AND ANALYSIS

Illustrated in Exhibit II-1 is a schematic of the framework developed to illustrate environmental and firm characteristics and the relationship of organization structure and management processes as the interacting agents between the two.

In the author's view Exhibit II-1 opposite captures most of the complexities involved in the operation of a professional services firm as it seeks to achieve, in a dynamic environment, a balance between external and internal influences on its operations. The foundations for this model have been developed and modified from the three sources referenced at the foot of the Exhibit. We start with a dynamic environment and a listing of the main influences at work which affect the market for the services of the professional firm. The firm itself is in orbit, as it were, in this ever changing environment and is itself in a dynamic state from influences at work within the firm. As between the external characteristics of

the environment, the internal characteristics of the firm and the intervening dynamics of structure and management processes, the Exhibit illustrates the directions of interaction between the two sets of characteristics and recognizes that some variables arising from this interaction are controllable while others are not. For example, from the Exhibit, opportunities (independent, non controllable, variables) arise from changes in the environment. Risks (dependent, controllable, variables) are taken by the firm responding or not responding to those changes.

Central to the task of maintaining an effective balance between these two sets of characteristics is top management's responsibility for defining objectives, formulating and implementing strategy, developing policies and instituting programs. Developing an appropriate structure and managing operational processes effectively are the key success factors.

I turn now to a detailed description of the research framework.

#### EXTERNAL/ENVIRONMENTAL CHARACTERISTICS

Examining first some of the more important environmental characteristics which have longer term implications for the professional services market and more particularly management consulting, one must have concern for the following:

1. Political, economic, social and cultural developments.
2. Trends in market dimension; market growth, and segmentation; scope of services; and methods of servicing clients.

3. Technological change such as advances in computer technology and in systems techniques and methodology.
4. Competitive influences both in terms of newcomers to the market and approaches affecting rate structures and type of service.

All of the foregoing characteristics of the market must be considered during the process of forecasting market conditions on a year-by-year basis. Obviously these characteristics can only be considered in the most subjective and general way since outcomes of these are increasingly uncertain in the longer term and in some cases may be merely cyclical in nature as distinct from implying major structural changes in the environment.

Details of the foregoing will be examined in more detail later in this section but it is important to remember that, in the process of forecasting market conditions, predictions about the foregoing characteristics must 'underpin' such forecasts, because only by so doing is it possible to keep the structure of an organization relevant to the market it serves and maintain an adequate and growing share of that market.

#### Political

Public sector work is a significant percentage of the management consulting market. For the 10 year period under review in this research it is estimated that this share of total market has varied from 29% to 36% and is therefore of particular significance to the management consulting industry. To a

greater or lesser extent, depending upon the type of professional service being rendered one might conclude that it is an important factor to be considered for any business rendering professional services in Canada. Three levels of government, federal/provincial/municipal all exert an influence on public policy. By far the largest influence tends to be at the federal level and certainly it is by far the largest market for consulting activity. Of principle interest in monitoring the political scene at all three levels of government is the thrust of policy changes likely to be made when a change in administration takes place. This is of most significance at the federal level and of least significance at the municipal level largely attributable to the part played by political philosophy at each level of government. An intimate knowledge is required also of the respective jurisdictions of the three levels of government; knowing in what areas each level of government has power to act without reference to the other. Understanding these powers and jurisdictional mandates which each level of government has, determines the influence which each can bring to bear on the environment whenever a change in administration takes place.

At the federal level one thinks of legislation in the national interest affecting economic, social and cultural conditions. There will be concern for regulating business for consumer protection and to deal with ecology and the preservation of equality of opportunity and cultural values.

At the provincial level, jurisdictions deal with education, economic matters to a lesser extent, law and order, transportation, and maintaining a balance on behalf of residents of the province between the federal jurisdiction on the one hand and municipal jurisdiction on the other.

At the municipal level the major issues are usually urban development, transportation, education, law and order at the local level, and community interests in general.

Changes taking place at any of the foregoing three levels of government usually affect the market for professional services positively or negatively, depending entirely on the nature and direction of the political philosophy of the incoming administration. However, in the face of this type of change one must not overlook the time intervals for such change. At the federal and provincial levels an election must be held at least every five years, while at the municipal level change must take place to some extent every two years. There is a limit to how much new legislation can be introduced during the life of a government. Opportunities to 'make a market' do exist out of such policy changes as are introduced but along with these opportunities is the continuing threat that an administration may change and countervailing policies introduced which could impact an otherwise promising area of practice for the professional services organization.

#### Economic

It is perhaps this factor which exerts the greatest influence

over the market for professional services. One must not only study the strengths and weaknesses of the national economy and the policies being pursued by the national government but one must also have regard for international economic developments particularly as they affect trading patterns both bilateral and multi-lateral. Monetary and fiscal policies in the domestic market will affect the market for professional services in different sectors of business and will also affect regional markets within the country depending upon the government's programs for the redistribution of tax revenue.

Strategies have to be geared to a variety of economic conditions. A strategy which is viable for professional services under good economic conditions in periods of economic boom may be less appropriate in large measure during recessionary periods when cost effectiveness is a more immediate concern. The persistent presence of inflation as well as the traditional phenomenon of the business cycle both impact the market for consulting services not only as to the types of services which are in demand but also the price at which those services can be sold.

The professional services sector and specifically management consulting, will also be influenced by the varying business cycles in different sectors of the economy and close attention must be given to the periodicity of these cycles as well as the stages in each cycle for each industry sector in order that adjustments of a strategic nature can be made in the scope and areas of practice over time.

Finally, by its very nature, professional services organizations operate with relatively high fixed or semi-variable costs. The main asset of such organizations is its professional staff who are highly trained and highly skilled and cannot be 'laid-off' in times of economic downturn as easily as workers on a production line. Consequently, fluctuations in economic conditions exert an influence on the negotiation process between the prospective client and the professional which entail the discounting of rates when conditions are adverse hoping for opportunities for premium rates in boom conditions. Volume/price considerations are particularly sensitive to economic conditions in the operation of a professional services business and in turn influence the total market for all professionals.

#### Social and Cultural

Flowing out of the political process described earlier one usually encounters concerns as well as legislation which bring about social and cultural change. Consumerism or consumer protection is one of them; concern for consumer safety, discrimination and equal employment, protection of our physical environment, and preservation of the quality of life over and above the quantity of output are but a few of these.

Canada is officially a bilingual country and in recent years increasing attention has had to be given both at the federal and provincial government levels, to 'the French fact'. By force of legislative change, increasing recognition is to be given to the preservation of the French culture and this has



produced marked changes in the market and in professional practice particularly in the province of Quebec and to some extent also at the federal level. There have also been concerns expressed about the preservation of other minority and ethnic groups, notably native peoples (Inuits and Eskimos), immigrant groups who have come to Canada from Europe during the post World War II era. In a variety of ways all of these concerns which ultimately bring about social and cultural change provide opportunities for professional services organizations to research and recommend courses of action for study by agencies of government. Three such areas of practice of particular significance to management consulting organizations in recent years have been the health care field, tourism and work with native peoples. In the first named, the need has been to improve the quality of service while at the same time increasing the cost effectiveness of the service being provided. In tourism, extensive research has been necessary in transportation systems and in facilities to support tourism, each aspect of this subject requiring the kinds of specialized skills provided by professional services organizations and unavailable in government.

Work with native peoples has arisen as a result of payments by government in the settlement of land claims which in turn has provided native peoples with large inflows of funds. These in turn have been applied not only to improving the quality of life of native peoples but also to establish a wide variety of social services specifically tailored to the needs of native peoples

preserving their culture and making them less dependent on federal and provincial agencies.

As with political and economic change, so with social and cultural change, the environment must be continually monitored to identify trends which present either long term opportunities or threats for areas of professional practice in order that the strategic implications thereof can be studied and changes initiated in the structure and management processes of professional services organizations.

### Technological

Under this heading my focus is on two characteristics of the services provided to clients by professional organizations. The first characteristic deals with the services or products themselves while the second characteristic relates to the process required to deliver the services or products.

### Services

Professional services are no less impacted by technological change than businesses which produce a hard tangible product. For example successive changes in computer technology both hardware and software, have produced surges in consulting activity with clients desiring to update and upgrade their computing capabilities. Particularly noteworthy, as illustrated later in this report, is the share of market enjoyed by data processing in 1971 at around 19% resulting largely from the advent of smaller and more powerful computers and the beginning of the remote terminal input output machines.

The market then falls away in the following year and slowly picks up until again in 1978 25% of consulting activity is in this area of practice due to the surge in hardware development toward miniaturization, the beginning of real time transmission and processing of data, and further breakthroughs in software packaging for routine systems.

Less dramatic perhaps but nonetheless significant in the management consulting environment are new techniques and methodologies in the handling of systems and procedures and in supporting management decision making. Over the past 10 or more years there have been a number of new developments in the area of finance and control, notably 'management by objectives', 'program planning and budgeting systems' (PPBS), and of more recent vintage, 'zero-base budgeting', and 'value for money' methodology for non-profit organizations. While some of these are old 'products' with new 'labels', nonetheless these and a variety of other technological or methodological changes have given birth to new markets for those involved in management consulting services sector and others outside of that sector.

One can visualize similar impacts on lawyers through the introduction of new legislation and on architects through changes in building codes and in construction techniques, and on transportation professionals who also function as management consultants when new forms of transportation are developed and new approaches to urban development are initiated. There is indeed a close link between product (or service) and the market to be served, and innovation and technological change provides major

competitive advantages to those who are sensitive to such trends which provides growth opportunities providing the professional skill profile of the organization has been kept relevant to the future needs of clients.

The opportunities presented to professional services organizations lie primarily in their ability to react quickly to changes in technology or techniques, providing clients with knowledge and skills which would otherwise take time to develop within a client organization.

The client 'buys' this advance knowledge and skill and this dimension of the environment in which professional services function, is critical to the performance of the businesses which operate within it.

#### Changes in the Delivery Process

In recent years the market for professional services has become increasingly specialized and clients have become increasingly sophisticated and somewhat more selective in their search for professional services. Increasingly the problems appearing in the marketplace as articulated by clients in search of outside assistance require inputs from a number of professions. This increasing complexity in the environment and in the problems created by the environment has brought about in recent years the need for a multi-disciplinary approach to the solution of client problems. The age of the general practitioner or sole practitioner operating in isolation is vanishing, giving way to a whole range of specialist type services even within the established professional disciplines such as medicine and law.

The role of the general practitioner is evolving into that of a diagnostician who identifies the nature of a problem and then refers the matter for closer definition and solution to those with greater depth in the subject area.

So it is with other professions such as management consulting in this changing environment. In the early years of management consulting three or four professional disciplines, notably accountants, systems analysts, data processing specialists, and marketing experts could collectively address most of the problems arising in a business context in the market. Now, one commonly finds consortium arrangements being set up to deal with larger projects in order to encompass all of the professional disciplines required to handle the project. This is made necessary because, within the framework of a management consulting business, it is infeasible and to a large extent uneconomic to keep fully employed, all of the professions that might be required in the solution of client problems.

This joining together of multiple disciplines drawn from a variety of professions is a growing phenomenon and is a change in the process of delivering services to clients made necessary firstly, by the increasing complexity of the problems themselves and secondly, because the clients in the market feel the need to deal with one organization rather than many and insist on having a prime contractor ultimately responsible for the work.

Consortium arrangements as a means of delivering professional services poses its own set of problems in terms of the division of responsibilities among members of the consortium and the determination as to which firm should act as prime contractor. All types of organizational conflict can arise during the course of delivering services of a multi-disciplinary nature to a client, as well as professional rivalries arising from overlapping areas of expertise. Nonetheless, this innovation in the service delivery process has been made necessary to provide broader client service, to deal with the whole problem not part of it, and to maintain the viability of individual professional service organizations who would otherwise suffer from the diseconomies of scale. This last point has not been explored in any depth, but it seems generally accepted that professional services organizations have an upper bound in size beyond which they become progressively more difficult to manage and lose their cohesion professionally. This seems to follow the maxim that 'one cannot be all things to all men' and there does seem to be an upper limit in a professional organization both in terms of its size and in terms of the number of professions it can bring together, manage, coordinate and control.

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#### Geographic and Physical Characteristics

These characteristics of the environment relate particularly to regional and sectoral demand requirements. As demand patterns shift over time, decisions must be made in anticipation of such changes as to where to locate appropriate skill groupings of professional staff to best serve the market. There are two sub-dimensions to be considered in servicing client needs, by region and by sector. These

sub-dimensions are location of staff and level of services.

Considering first where to locate staff in relation to regional and sectoral dimensions of the market, decisions have to be made not only about the size of office in terms of number of professionals but one has to decide also what profile of skills should be resident in that office in order to meet the most common client needs expeditiously. In each type of market, whether that market be defined regionally or sectorally, there will tend to be types of services (or products) which are in greater demand than others. The pattern, of course, does change over time but at least at the outset some forecast based on historical trends tends to indicate the profile of skills needed for a 'core' group of professionals close to the market as previously defined.

The second sub-dimension referred to above, that of level of service, must then be considered and this relates to the forecast size of market to be served which has implications for the number of professionals with an appropriate profile of skills to be located close to the market. The level of service provided turns on how quickly the client needs can be met by the professionals resident in the area by reference to current work backlog and availability of appropriate skills. More than this, for those services (or products) less frequently required by clients in a particular segment of the market, decisions must be made as to where these more specialized and possibly fewer professionals shall be located in order to optimize the use of their services in spite of transportation and other difficulties related to the movement of professional staff.

The whole subject of market forecasting, as this relates to servicing client requirements in particular segments of the market is critical to the performance of professional services organizations. The level of service available to prospective clients is frequently a determinant of success or failure in negotiating professional contracts. Forecasting shifts in market demand and making decisions about profiles of professional skills and the location thereof is at the heart of the strategic decision making process of professional services organizations.

#### Competitive Forces

As a professional services organization plots its strategy for addressing the longer term developments in the market, it must obviously have regard for the structure and trends in the services sector within which it operates. Who are the competition? How do we compare? How do we compete? What are our strengths and weaknesses? What are theirs? What strategies do they seem to be following? Answers to all of these questions, however imprecise, must be sought in order to arrive at meaningful decisions about one's own strategy. Answers to some of the questions are to be found in the marketplace through interaction with past and present clients and meetings with prospective clients as well as interaction during meetings of the established professional associations such as the Canadian Association of Management Consultants.

However, using the example of the management consulting service industry, knowing who the competition is, is the first and most important question. In consulting, perhaps 60% of the Canadian market is accounted for, in the year 1979, by 18 member firms having



1,248 professionals in practice; the remaining 40% of the market is handled by highly fragmented groups of specialists and general practitioners. These range from the sole practitioner operating in a relatively small community and specializing in one type of service through to larger national groupings of specialists focusing on one functional area of expertise, the best example of which is Executive Search. Other such groupings deal with economic studies or marketing problems or employee benefits, etc. Likewise there are those large consulting organizations who are domiciled outside of Canada and who have developed reputations in certain specialized areas of practice who periodically are called in by the larger Canadian organizations to deal with specific problems largely because of their international expertise and reputation. Finally, the private sector consulting services industry must compete with groups who offer services at lower rates than normal because of institutional advantages. Such groups include faculty members from universities, research organizations funded privately or by government, and finally the internal consulting groups of larger client organizations who tend to be used for studies and system improvements when field research is not particularly important. This then is the competition and the task of the established consulting services sector is to maintain its market share as well as improve it wherever possible and this is only feasible by maintaining a competitive edge in skills and knowledge about changing market conditions.

An additional problem which faces certain 'professional' services organizations, notably management consulting, is the relative ease of entry into the industry. Unlike the well established professions of medicine and architecture, it is still possible in

management consulting to practice without a license although this ease of entry is a 'snare and delusion' for the less skilled practitioner who must not only develop new work but carry it out at one and the same time. The mortality rate for this type of practitioner is sufficiently high to act as a deterrent, leaving the market relatively clear for the skilled practitioner and the larger multi-disciplinary organization to maintain the reputation for high quality work so necessary in protecting the market and its clients.

While having an appreciation for the make-up of the 'hidden' competition which accounts for possibly 40% of the market is important, of far greater importance is an understanding of the larger domestic firms in the industry of consulting just as would be the case in other professional services organizations. It behooves a member firm of the Canadian Association of Management Consultants to gather as much market intelligence as is possible which bears on the skill profiles of competitive firms in the Association; to understand their areas of specialization in a functional sense as well as in an industry sector sense. It is also important to have some understanding as to where this strength is located regionally. Competitive firms are obviously engaged in predicting the dimensions of the market in its several dimensions just as ones own firm is so engaged. An awareness of competitive moves along these dimensions is useful as one considers ones own strategy in meeting the needs of the market in the longer term future. Where the competition is concentrating its strength geographically, where it is adding strength to its areas of expertise, on what industries it is focusing, and what kind of balance it is developing between private and

public sector work are all vital pieces of information as an input to decisions about a consulting organization's strategy.

Of fundamental importance is to try to determine and identify the rate structures employed by the competition and to gain some feeling for cost-price relationships in other organizations. By law, it is not possible to obtain direct information on this kind of data among competitive firms. However, one can gain some 'feel' in a competitive bidding situation. However, even this broad comparison is not entirely reliable since individual firms may at one time or another be following a low price strategy either to make a market or to correct a low work backlog situation.

### Summary

The external/market characteristics served by professional service organizations such as management consultants, architects, consulting engineers, lawyers and the like can be considered along three dimensions; demand, needs and servicing requirements.

### Demand

As will be illustrated later in this report one can see over the period under review the fluctuating pattern of demand by industry sector, by geographic region, and by the nature of skill required.

In hindsight, it will be shown that it is not too difficult to account for the shifting patterns of demand from year-to-year on an industry by industry or region by region basis, these being to some extent attributable to shifts in political influences and more particularly changes in the economic climate affecting either an industry or a region.

As one examines the same patterns of professional activity in an individual business against those for the particular professional services sector totally, the ongoing task is to interpret the record of the past with a sensitivity and an understanding which will improve judgments about the future.

As one examines demand in the marketplace one is in the first instance considering demand for existing services in existing regions by existing industries which leads one to then examine the nature of the product being delivered. The services being provided to clients fluctuates on a year-to-year basis and one might assume that, in general terms the changing pattern on a year-to-year basis reflects the market's changing pre-occupation and priorities for different types of professional skills. The task of the professional services organization and for the services sector at large is to try to interpret short-term needs in the first instance and then by reference to trends in the political, economic, social and culture climate, endeavour to develop strategy, particularly as this pertains to staffing needs, which will hopefully match the changing demand in the market.

### Needs

The environmental or market demand just described must translate itself into a broad categorization of skills and aptitudes found in management consulting organizations. Similar categorizations have to be developed for other professions such as lawyers, accountants, consulting engineers and the like. While these skill groupings of professionals are generally able to deal with

client problems in a broad sense, within each skill grouping is a range of 'products' for which demand will vary over time. A good example to illustrate the notion of products within a skill grouping is 'personnel services'. Professionals practicing in this area deal with actuarial evaluations, pension plans, non-cash compensation issues, life insurance and dental plans, and a variety of other fairly well defined 'packages' which is the way in which prospective clients usually articulate their needs. The area of data processing can be similarly categorized and it is often the only way a professional services organization can translate its services into meaningful terms to a prospective client. The client rarely buys skills as such but the end product of those skills such as a pension plan or a 'real time' inter-branch order processing computer system with an appropriate equipment configuration and software package.

Client needs for these products change over time as operating conditions change. This is an important element in the environment of a professional services organization and one of the most difficult tasks facing the management of such an organization is to predict market requirements for products in the longer term future and develop a strategy to satisfy these requirements. Flexibility in the range of skills available has to be a first concern closely followed by adapting and specializing the skills to the range of 'products' which may be needed by future clients.

## INTERNAL/FIRM CHARACTERISTICS

Having examined the characteristics of the environment in which a professional services organization must operate, factors or influences which are largely uncontrollable, top management's task, in a dynamic environment and on a continuing basis, is to define objectives, formulate and implement strategy, develop policies and institute programs consistent therewith. In so doing, management is creating and maintaining on a continuing basis, a set of internal countervailing influences in the firm designed to optimize the use of its resources in the market. These resources, largely human in a professional services organization, must be so positioned and motivated as to be able to take fullest advantage of the opportunities and challenges in the environment, recognizing the risks in so doing, so as to be able to achieve an appropriate balance between growth and profitability while satisfying the needs of clients and the aspirations of professional staff. Set out below under appropriate headings, following the conceptual framework in the Exhibit at the front of this chapter, is a description of the internal/firm characteristics in the typical professional services firm.

### Purpose

At the outset the mission and goals (or objectives) should be clearly understood by all professional staff in the organization. For example, in a consulting organization which forms part of a firm of public accountants, is the mission of the consulting organization primarily to support and strengthen the firm's relationship with its audit clients (to offer a broader range of services to existing clients)? Alternatively, is the mission to use the audit

client base as a departure point beyond which the consulting organization seeks clients of its own outside of the audit client base in order not only to grow but also in the hope that such clients might become audit clients? Is the scope of practice of such a consulting organization to be limited to finance, accounting and control functions most closely aligned to audit skills or should the scope expand to include other functional areas of expertise? A general statement or even understanding of the ultimate mission is essential since it will strongly influence, over time, the attitudes of professional staff and the overall direction of the firm.

Given a general statement of this kind it follows that subordinate goals or objectives consistent with the foregoing can be articulated as to what is to be achieved and when results are to be accomplished. How these results are to be achieved is a matter dealt with in formulating policies and instituting programs. All organizations have multiple goals and particularly in a complex hierarchy commonly found in professional services organizations of any size. These range from value objectives which express the broad value premises toward which the company is to strive, through to overall organizational objectives which set the intended nature of the enterprise and the direction in which it should move. Major goals are the 'building blocks' which underpin its strategies.

Given the foregoing, the next major characteristic of such organizations is its strategies or plans which marshal and allocate its resources so as to achieve the best match of its internal strengths and weaknesses with anticipated changes in the environment and particularly moves which might be made by competitive forces. There is some question in the researcher's mind as to how far

ahead in a professional services organization a strategic plan can be developed and this will be explored in a later chapter. For the present, there is an acceptance that strategic plans must be formulated and exert a strong influence on the firm even though those strategies can only be developed one step at a time or as an unknown author once said 'a timed series of conditional moves'.

Such strategic plans are then translated into policies or guidelines expressing the limits within which action can be taken without reference back to modify strategy. The researcher is aware that many professional services organizations develop policy manuals which serve as the major influence guiding the firm's overall direction and posture and which progressively integrate mission, goals, strategies and indeed some aspect of programs which flow from policy.

The programs which are initiated by professional services firms are of course action oriented and deal with the implementation of plans and policies and cover a wide range of aspects of professional practice. Business development, staff training and research, professional practice (quality control), scope of practice, marketing of services, etc. are perhaps the most powerful influences on the conduct of the practice.

### Resources

The main asset of a professional services organization is the professional staff and it is a 'wasting asset'. It is a wasting asset in the sense that the firm has expertise to sell to its clients and this is sold on the basis of the time spent in delivering the



service. If the time is not used then the asset is not being used and at the same time as time passes the expertise being delivered to a client slowly but surely becomes obsolete and must be renewed either by more time being spent in a learning environment or time being spent in other client organizations acquiring new knowledge 'on the job'. As a professional firm makes its judgments about environment and articulates these through statements of goals and strategies, so it must recruit and train its professional staff such as to achieve a profile of skills which can best meet the market and capitalize on the perceived opportunities and challenges in the market. At any one time in the life of an organization its complement of professional staff measured in terms of skill and experience is the sum total of the strength of its influence on the market and also within the industry.

An essential part of a professional firm's major resource, its professional staff, are those with management capabilities and responsibilities, management of the firm's assignments for clients which involves professional practice, and management of the firm itself as a commercial enterprise. This group of professionals with management responsibilities is the key influence on the performance of the organization without which one has a group of professionals who, because they are professionals tend to think independently and not organizationally.

Technical resources in a professional services firm are usually limited to information processing equipment and drafting, secretarial

and clerical support. In a management consulting organization technical support, particularly in the area of visual and written communication must of course be of the highest order. Clients are apt to make judgments or at least be influenced by the standards of quality of written material or visual aids used by consultants, in assessing the value of the professional services being provided.

Of somewhat lesser importance to the resources and their influence mentioned above are the financial resources of the firm. In order to continue in existence a professional firm must be profitable in order to retain its partnership group and in order to be able to compensate adequately its key resources, the professional staff. Financial resources must also be such that the firm can undertake research in order to stay at the forefront of knowledge in serving its clients. It must be able to finance ongoing training of less experienced professional staff and finally it must have adequate working capital to withstand the vagaries of the market as the needs of that market change and adjustment in scope of practice becomes necessary.

### Organization

The structuring of professional services organizations is a complex task in that professionals tend to think independently and their primary concern and interest is practising their profession by being actively involved as much as possible with clients. Professionals of whatever kind by the very nature of their work tend to resist most forms of 'regimentation' and administration. This is secondary to their main purpose in life and only becomes a preoccupation when there is insufficient work to be done for clients.

### Values

The experienced professional is usually very marketable. His compensation has been and is such as to make him mobile and overriding this is his ongoing need to practice his profession and derive the satisfactions associated therewith in serving clients. As a practising professional he aspires to pre-eminence and recognition in his chosen profession and his attitude to corporate objectives, risk, growth, and profits tends to be secondary to achieving his objectives. Even at the management level in a professional services organization there remains the driving force to stay in practice and serve clients. On the one hand in a professional organization the professional quality of the individual is a primary importance while on the other professionals need to be so linked together collectively as to work together effectively and provide for good allocation of resources to meet client needs. The values, aspirations, and attitudes which individual professionals bring to a professional services organization and which are changed and modified by the culture and system of the organization, are powerful influences and characteristics affecting the efficiency of operations and effectiveness in meeting client's needs.

### Functional Systems

As with companies and firms in other industrial and service sectors, so with the professional services firm there are functional systems which support and influence the operation of the business. In an organization staffed by members of a profession, marketing as a function is referred to as practice or business development. The difference however, in the functioning of this activity in a pro-

professional environment as distinct from that of a commercial or industrial environment is that the activity tends to be a part-time activity and not a separate and distinct function staffed by specialists. There is no overt selling of professional services and the function is diffused across the organization with partners or senior professionals carrying most of the responsibility for new business and spending more of their time at it than less experienced professionals most of whose time is spent executing assignments. This does not mean that the function is not recognized for indeed it must be as a vital source in the continuity of the practice. There must be a continual inflow of new business and a recognition that an organized and disciplined approach must be taken toward this, otherwise a professional services practice will die. Accordingly, a variety of systems usually exist in most well run professional services firms which keep a record of contacts made with prospective clients and beyond this a track record of engagements under negotiation, the success rates of engagements secured under competitive conditions and 'sole source' and the time devoted by professional staff to business development either in a general or specific sense. Only in this way is it possible to make judgments about the effectiveness of business or practice development efforts in a corporate sense and also from an individual professional's standpoint. In the latter regard, certain professionals have more aptitude for business development than in the practice of their professions while the contrary is true in other cases. Recognition of these aptitudes is important in the ongoing day to day activity of the firm as is monitoring results so that resources can be applied to best advantage.

The administration of projects in process calls for another type of system whereby there is ongoing monitoring of the quality of client work, the expenditure of hours against budget, progress reports to the client and to the firm's administration, the level of chargeability of individuals engaged in projects, and the billing of work done to the client. A whole array of sub-systems typically exist in a well run professional firm to ensure that work which is chargeable to clients shall be in accordance with standards of quality established as a matter of policy and also meet the commercial requirements of the firm.

The firm's finances likewise are subject to a set of sub-systems covering both financing needs and profitability. In the area of financing one needs to know how much is invested in accounts receivable and how much is 'locked up' in work in process. One must be alert to the balance between capital provided by the partners and temporary financing provided by the banks. It is important to monitor the 'backlog' situation on a continuing basis, this pertaining to the value of contracts in process with the work remaining to be done so that the inventory of work in process or 'backlog' remains in some kind of balance with activities covered in the preceding sub-section under business development.

Measurement and information systems exert their influence by reporting on the performance of the organization and as in most organizations professionals who have banded together in practice need to know, on a continuing basis, whether their individual and collective efforts are successful judged by the usual criteria. Likewise, the individual professional needs reinforcement periodically through an

appropriate reward system which adequately measures his performance and compensates him at least at the level of his perceived market-ability elsewhere. Performance appraisals and goal setting for the individual on a face to face basis regularly, affects morale and motivation and indeed, turnover in professional service firms is critically important to the health of the firm and the quality of services rendered.

### Outputs

The end result of all of the foregoing internal characteristics and influences on the activities of the firm are to satisfy in the first instance the client's needs. It has been said of management consulting and indeed of most other professions that if the client's needs have been satisfied such that ones reputation is enhanced then the commercial aspects of the business take care of themselves. This is perhaps an over simplification but comes close to the truth when one thinks about the ultimate 'raison d'etre' of a professional services organization. More often than not it follows that if the client is satisfied it is likely that the professionals who have been involved in the work are also being satisfied as professionals. This end result, however, is a function of how well the satisfaction of client needs has been matched with the professional skills and experience of the individuals required to handle an assignment. There is not always a perfect match, obviously, and where this is not so either the client's needs are not satisfactorily met or if they are, the professionals involved leave the assignment not completely satisfied that they have been well used or that they have been able to give of their best.

Another type of output is a listing of the projects which have been satisfactorily handled. Such projects enhance the reputation of the firm and can be quoted as experience in seeking new work. It is particularly important to professional services organizations and specifically management consulting firms if they can point to particularly complex and challenging engagements and be able to demonstrate that they have broken new ground and have developed innovative approaches to the solution of the client's problems.

There is also that range of services which a professional firm renders in ongoing open-ended contracts supplying advisory services. Perhaps the ultimate satisfaction for the professional consultant is that he is retained for periodic consultation by a client who seeks his advice on a wide range of business topics sometimes to provide a second opinion and other times to carry out research and provide a solution. This kind of connection is invaluable for a professional services firm since it enables that firm to use that kind of client as a reference in developing new contacts and new assignments. These then are the outputs of the professional services organization and they exert pressure on the management of the firm and on the attitudes and aspirations of the professionals working in it.

This concludes the description of the internal/firm characteristics which describe the position of a professional services firm vis-a-vis its environment. In the following section, the third and most important segment of the conceptual framework is examined which focuses on those factors in the operation of a consulting business

which are dynamic in nature, influence the level of interaction between firms and environment and are key determinants of the level of performance.

#### FIRM STRUCTURE AND MANAGEMENT PROCESSES

The purpose of this section is to link the characteristics of the environment and the firm, described in the previous sections with certain concepts of a strategic and operational nature which the author of this report hopes will provide the reader with some depth of understanding of the dynamics involved in the operation of a professional services organization in the environment described above. That which follows is the author's perception of the forces at work as a professional services organization, specifically management consulting, endeavors to establish and maintain its position in the market which it serves. Various aspects of this subject are dealt with under appropriate headings below following the conceptual framework in Exhibit II-1.

#### Strategic Planning

##### Scope of Practice

This subject has been described in detail in Chapter I.

The problem for the professional services organization is to try to visualize for purposes of longer range planning the extent to which the external influences at work in the environment will require new products or modifications in existing products.

It is not too difficult for such organizations to look ahead 12 months and visualize modifications but it is infinitely more



difficult to look beyond the short run and be able to anticipate the emergence of new markets for new products. Admittedly, new products and new markets represent only a small incremental change annually beyond the 'hard core' of a firm's scope of practice. Such changes, however, may signal a more significant longer term trend in the professional services market. Only a continual sensing of the influences at work in the firm's environment can provide a clue about such changing needs and only vision and keen analytical ability can translate these needs into products or areas in a scope of practice which are compatible with the mission and objectives of the firm and with the skill base in place. Nonetheless, judgments have to be made on such strategic issues by senior management with all the attendant risks of success or failure, and these judgments are then translated into targets of one kind or another i.e. growth, profitability, skills required, etc. It is in this latter respect that major risks are taken in a professional services organization as described in the next sub-section.

#### Recruitment, Training and Research

This activity in a professional services organization is ongoing to provide for turnover and growth. However, growth anticipated through possible changes in the scope of practice that is in a strategic sense, must be accommodated by the addition at times of new types of skills and experience. The approach involves a commitment to new types of staff who are not yet gainfully employed on client work and therefore represents both an investment and an ongoing expense until the market has been explored and developed. It is a step by step process to take note of what are perceived to be emerging opportunities while using caution in the

investment of time and expense. This possibly is the only way a professional services organization can address strategic planning; a 'building block' approach which will provide either a springboard into new areas of practice or will be written off as bad judgment.

#### Rate Structure

It is too easy to say that the market determines the price at which professional services can be sold. Experience tends to suggest that in the established professions the combined force and weight of each profession on the community at large is such as to play a large part in determining what the rate shall be. There is a trend in North America at least, toward competition between individual members of the same profession or at least between professional service firms because of the strengthening consumerism movement. However, it is extremely difficult and in many cases impossible for the relatively uninformed user of such services to be able to say whether the price is right or not.

Rate setting and a rate structure is a complex task particularly for the more recent and less well established professional organizations.

The steps and the process of the larger and long established firms are as follows:

- By reference to the types of work which a professional services organization will undertake, judgments must be made about the structuring of the organization and more particularly the structure appropriate to the handling of the most common types of assignment. What

'leverage' is appropriate, i.e. number of partners to number of managers to number of senior consultants, to number of junior consultants.

- Judgments must then be made about the extent to which it is expected that the four levels of professional staff can be chargeable to clients, i.e. partners 50%, managers 60%, senior consultants 70%, junior consultant 80%. In arriving at these percentages a determination will have to have been made of the time necessary for non-chargeable activities such as business development, research, training, management and administration.
- The cost structure of the organization must then be assessed taking in all the usual overhead expense items necessary to support the professional activities of the firm.
- Some judgment must then be made by reference to the estimate of chargeability of the professional staff as to what is a reasonable return by way of profit to the partners.

### Market Forecasting

Somewhat hesitantly the author has attached as an addendum to this chapter an approach to forecasting the market for management consulting which takes the form of a mathematical model. It does not claim to be scientifically based or validated but rather is very much the result of trial and error in the search for some correlation between the gross national product and the

size of the market enjoyed by member firms of the Canadian Association of Management Consultants. Nothing more is claimed for it except that it has 'held up' as a forecasting tool for a five year period based on experimentation to develop the model in the preceding five year period. The author has included this, because it has served him well in a very pragmatic sense and for purposes of this research it is enclosed as a possible opportunity for further research by econometricians.

### Operational Concepts

Under this heading will be described in a conceptual sense, the main activities of a professional services firm and particularly management consulting although it is believed by the author that much of what is discussed below is applicable to all professional practices.

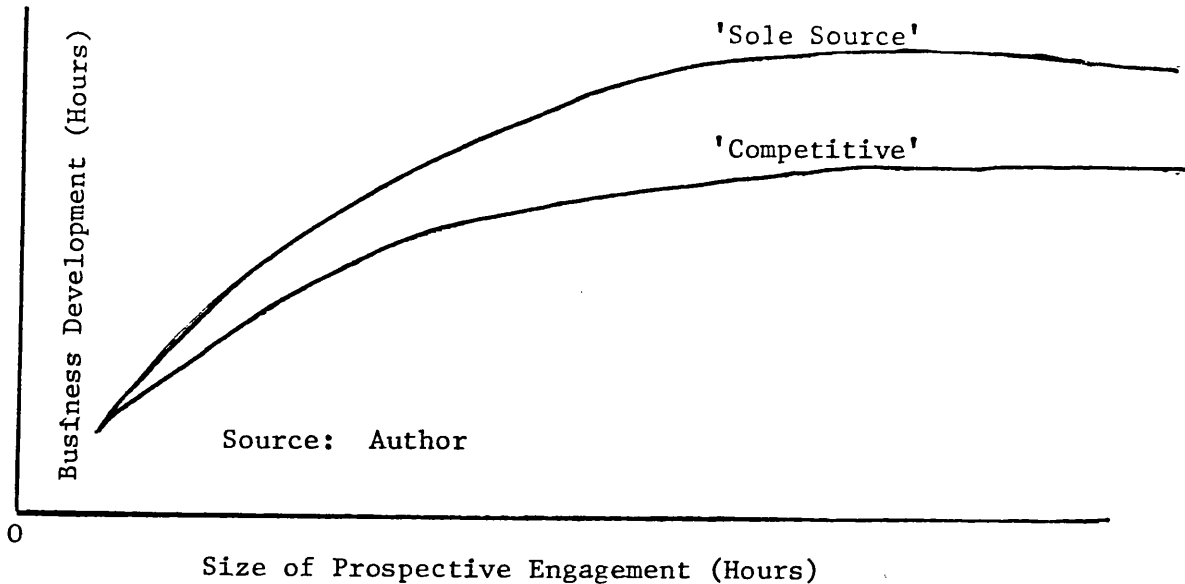
#### Business Development

How much is enough is always a complex and vexing question in seeking new work. Time must be spent in developing a new work but not so much time as to impact on the remaining time required to handle the work. In simple terms, what percentage of 'controllable time' is appropriate to the type of practice and the type of assignment being handled by the firm. Also, what percentage of controllable time is appropriate to different sizes of assignment. More than this again, how much time should be spent on a prospective assignment where one is in competition, as against the time that should be devoted to the 'sole source' opportunity where the risks of failure are less.

Illustrated below in Exhibit II-2 is a conceptual view of how one might view this 'balancing act'.

Exhibit II-2

Business Development Hours  
For Prospective Engagements



Some determination should be made at the outset by reference to the type of professional activities and the average size of professional engagements, what percentage of controllable time is appropriate for business development. One must have in mind that most of this time is the time of senior more experienced individuals in the firm and therefore costly. In a consulting environment one can think variously of percentages ranging from 15% to 25% with less than 15% not producing the required volume of work and above 25% not being able to execute all of the work which has been developed.

Exhibit II-2 relates business development hours to the size of prospective engagements also expressed in professional hours. The two curves drawn on the chart relate to 'sole source' against 'competitive' opportunities, and recognize that there is less risk of failure in a sole source engagement than one where the



competitive element is introduced. More hours are therefore justified for the former than the latter. The curves are drawn around the 20% plus or minus 5% development time as discussed above. Beyond this, the curve levels out beyond a certain point in size of engagement because of the increasing cost of the risk of failure to secure the engagement. There is always a 'trade-off' between hours devoted to developing a large assignment as against those same hours spent developing a number of small engagements. While a large engagement will keep a number of staff engaged over a long period the success rate tends to be higher with smaller engagements all other things being equal although admittedly they rarely are.

With this concept in mind it behooves professional services firms to continually monitor and control this high cost time in order to protect what is deemed to be a satisfactory success/failure rate in securing engagements.

The development cycle found to be typical in at least one large consulting organization is illustrated in the Exhibit II-3.

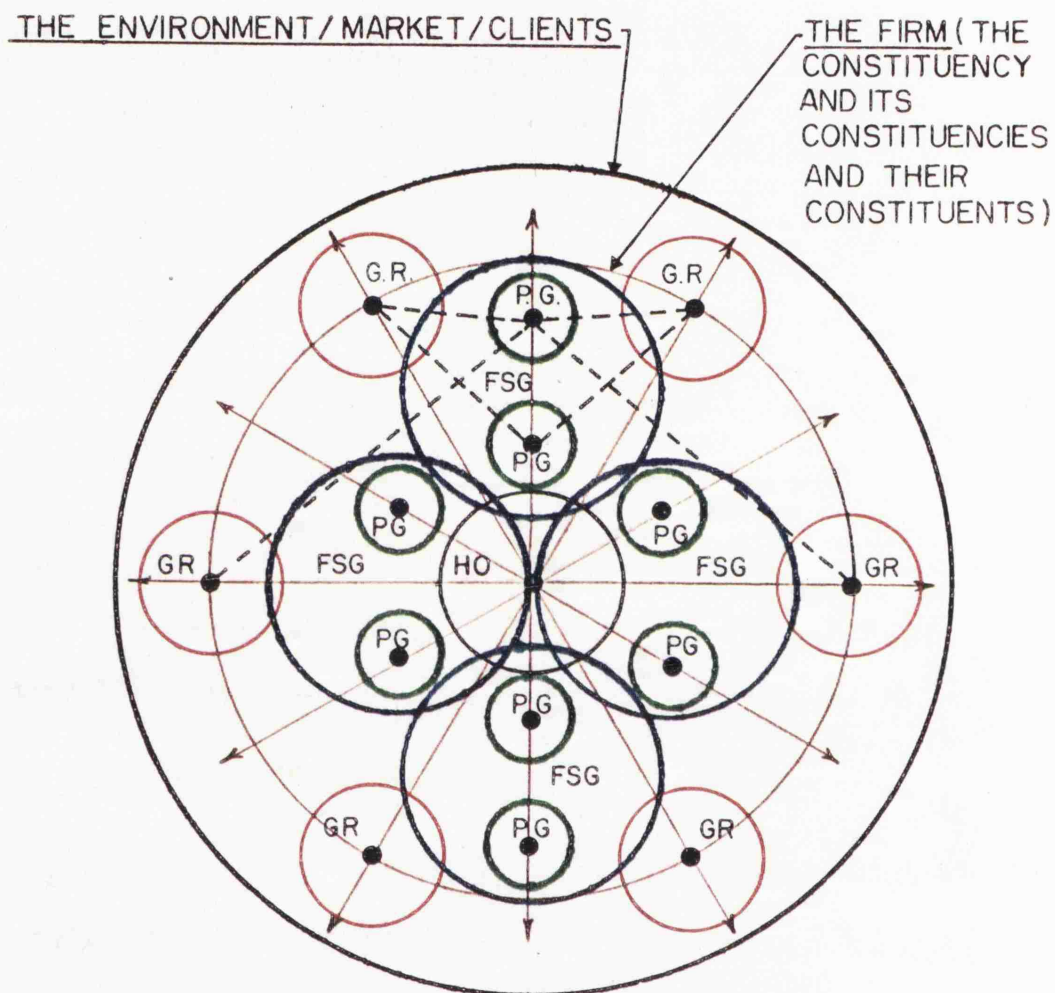
It is in concept only in that it is a synthesis of 10 years experience in one organization and on the one hand illustrates on a month by month basis over a 12 month period the monthly acceptance or success rate in confirmed contracts in hundreds of thousands of dollars and on the other hand illustrates in the same time frame monthly chargeable hours. Since dollars and hours are directly related through the rate per hour mechanism described above, the facing Exhibit may be taken as a generalized model of the experience in one firm of the ebb and flow of business development and chargeable activity and the

relationship between the two.

First examining the monthly acceptance cycle and then allowing for possibly 4 - 6 weeks lead time in negotiation of prospective engagements which culminates in acceptance or rejection, one can see that the highest level of monthly acceptance activity tends to coincide with the lowest level of chargeable activity. This is obviously completely out of synchronization but there seems little that can be done to change it. To elaborate a little, further evidence in this one firm suggests that in general a bi-modal condition exists across a 12 month period in business development and the receptivity of the market. Greatest interest occurs in the period September through November preceded by the negotiation period at which time, subject to one's success ratio, much of the work is generated. The second mode starts to occur in February through March preceded by development and negotiation producing another surge of work. Interest by clients in consulting projects seems to slacken as one moves through the Spring and early summer months and likewise as one moves through the November - January months these periods coinciding with the traditional 'let down' in business and government activities. Paralleling this cycle and out of synchronization is the cycle of chargeable activity which is also bi-modal, as one might expect, and is on the upswing after each period of successful business development activity and on the down-swing somewhat later than the down-swing in business development activity. If one can accept this conceptual framework as a guide in the interaction of a consulting firm with its market, then the periods of particular concern are in April/May and January/February where chargeable activity has just peaked and is starting to fall away,



ORGANIZATION STRUCTURE  
A CONCEPT OF CONSTITUENCIES  
IN A PROFESSIONAL SERVICES FIRM



LEGEND

- PARTNERS I/C. AREAS OF PRACTICE
- GEOGRAPHIC REGIONS (ORGANIZATIONAL UNITS)
- FUNCTIONAL SKILL GROUPS (ORGANIZATIONAL UNITS)
- INDIVIDUAL PROFESSIONAL GROUPS (ORGANIZATIONAL UNITS)
- HEAD OFFICE AND SENIOR/EXECUTIVE PARTNERS (ORGANIZATIONAL UNIT)
- FIRM AND ITS CONSTITUENTS / NETWORK OF PROFESSIONAL PRACTICE INITIATIVES/ACTIVITIES
- ENVIRONMENT / MARKET / CLIENTS
- REGIONAL / FUNCTIONAL CONNECTIONS (LIMITED EXAMPLE)

Source: Author

calling for accelerated business development activity to start building a backlog of work in process through successful negotiation of contracts.

### Organization Structure

Reference has already been made earlier in this chapter to the subject of organization under the heading of Internal/Firm Characteristics. Since this section of the chapter focuses on operational dynamics and concepts of a consulting firm practicing within the environment it seems appropriate to touch on some of the structural complexities involved. Illustrated in Exhibit II-4 is the author's view of how a multi-disciplinary group of professionals are held together organizationally such that they are able to interact with their colleagues in other disciplines as the need arises and also to serve their specialized constituencies of clients without undue conflict.

An appropriate skill profile is necessary to achieve a working structure to serve the market and an effective balance in the human resources of a professional services organization. The individual professional must also be comfortable in his organizational environment and able to reconcile his professional goals with those of the firm to which he belongs. His primary concern will always be with his professional objectives and it is a matter of reaching some kind of accommodation with organizational objectives. Some balance must be struck and the extent that it is achieved will influence the effectiveness of the firm in meeting the market. The professional is always sensitive with whom he works in an organization and in structuring an organization

one is always seeking an arrangement which brings groups of professionals together who can be compatible in their areas of practice and at the same time be effective collectively as they look for new business opportunities. There is debate as to whether professionals in a multi-professional or multi-disciplinary organization such as management consulting should be divisionalized by profession, i.e. general management, financial services, operations engineering, information processing (computers), etc. or whether in certain circumstances groups of professionals can be brought together in industry related divisions, i.e. health care, tourism, transportation, education and welfare, etc. etc. Structuring professionals in an organization is a complex task and how well it is done influences its posture in addressing the market.

In a multi-disciplinary professional services and specifically consulting organization, one is typically faced with a multi-sided organization matrix which assumes one form for one purpose and another form for another. For purely administrative purposes such organizations are 'flat' unlike the type of organizational hierarchy one finds in the industrial sector. The legal form for professional services organizations is usually that of a partnership which theoretically makes all members of the partnership/management group equal. Extending beyond the partnership there are groups of professionals, of different disciplines, each professional practising his profession and presumably qualified to do so or at the very least under the supervision of one who is.

The first and possibly easiest step organizationally is to set up

geographic divisions or regions and so the operational unit in this case takes a part of the organization's expectations and translates them into regional and operational result areas. However, since one is dealing with different disciplines in the organization, one must consider how best to identify groups of individuals practising the same profession and whether to structure the regions to reflect this. The needs, aspirations and attitudes of different disciplines are different and in some cases in marked respects. Recognition of this fact may have to be translated into functional terms which introduces a second dimension in the matrix having recognized the first being the regional or geographic arrangement.

Having considered this second dimension, very quickly one needs to address the scope and areas of practice of the multi-disciplinary professional services firm and ask oneself whether groups of individuals should be brought together organizationally, somewhat like product groups in an industrial organization, to facilitate business development, sharpen its focus, and enable some form of measurement of results as a means of control. Along this dimension one needs to consider the second dimension previously described of bringing individuals of like discipline together and effect some kind of compromise as between an area of practice in, for example, general management, computer sciences, finance and control, as against practice in industry sectors such as health care, tourism, transportation. The latter would involve a mix of disciplines while the former arrangement would simplify the collection of like disciplines to recognize the sensitivity of the professionals involved. The author has

endeavoured in the Exhibit II-4, to capture conceptually an organization of constituencies, each with its own area of practice and discipline but bound together in larger constituencies to serve the overriding strategic mission of the firm.

### Planning and Control

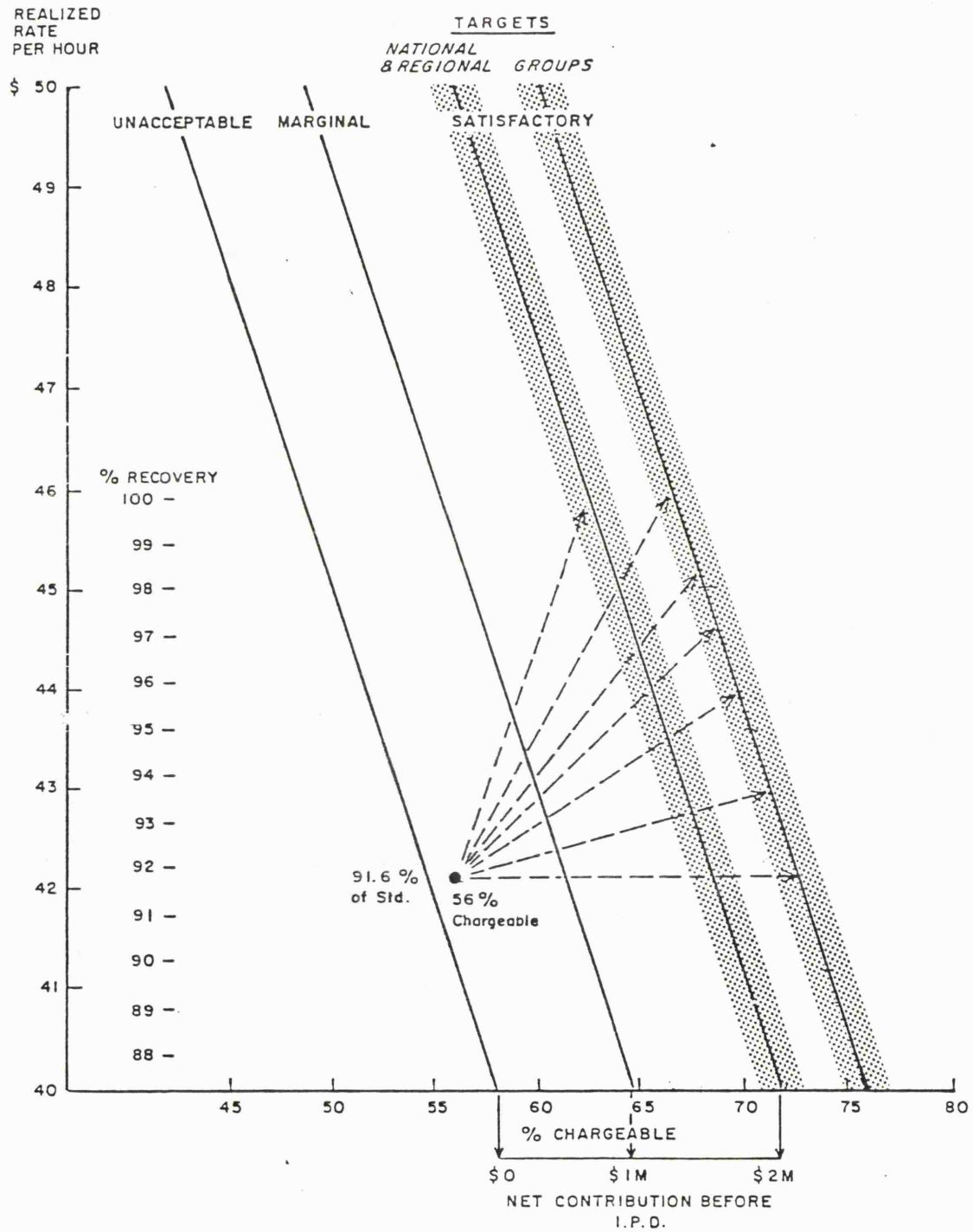
Earlier in this section under the heading rate structure the subject of chargeable time was defined and discussed for purposes of establishing a rate structure. Indirectly under the preceding sub-section the significance of business development was highlighted as well as the importance of keeping professional staff properly chargeable in terms of their time billed to clients. The rate structure rests on two key assumptions; the first, the achievement of certain rates (standard rates), which in turn are based upon assumed percentages of controllable time which will be chargeable to clients. In terms of rates there is a mix of rates for different levels of staff ranging from high rates for partners to low rates for junior consultants and likewise there is a mix of percentages of controllable time billable to clients from a low for partners to a high for junior consultants. The predetermined mix of staff complement referred to under strategic planning will determine what the composite standard rate is for the whole group and likewise what the composite standard chargeable percentage of controllable time should be for the same group. For example in the latter regard if one assumes that a partner will be 50% chargeable while a junior consultant should be 80% chargeable and there are relatively few partners and a large number of junior consultants then the composite standard chargeable percentage should fall in the high '60's for example 68%

chargeable for the whole group realizing a certain standard composite realized rate which will compensate professional staff, recover the overhead, and provide an acceptable return to partners for their efforts. This is the theoretical and conceptual underpinning to the operation of the practice and if performance of the practice is in accordance with standard then the anticipated results will follow. However, as in any other business rarely can standard be achieved, which highlights the need for planning and control of the critical variables.

Critical control variables are the two which have just been mentioned namely rate realized and time chargeable. Another critical control variable is the compensation of professional staff which, in professional services organizations is at least 50% of the total expense of running the business. For the rest of the expenses for running the business, for all practical purposes one might assume such expenses are fixed over long periods of time and move upwards only with significant jumps in size and activity of professional services organizations.

In the matter of compensation, professionals must obviously be compensated at their marketable values and more than this, in a consulting environment because of pressure points, travel requirements, and frequent challenge they will often need to be compensated at a premium as well as being provided with adequate opportunity to interact with their fellow professionals in other organizations which also affects the cost. This whole area of professional compensation is critical to the health of a professional services organization and one which must be monitored

# ECONOMICS OF THE PRACTICE ANALYSIS OF CRITICAL VARIABLES



Source: Author

on a continuing basis through project reviews, performance appraisals and an appropriate reward system to recognize the outstanding from the mediocre.

The first two mentioned critical control variables, rate and chargeable time have been brought together in a conceptual model illustrated in the Exhibit II-5. Interpreting this model it is possible to see the interaction between realized rate per hour and chargeable percentage time achieved and the fact that there are a wide range of combinations of the two to achieve similar results recognizing of course that it is rarely possible to achieve 100% of both. In most client assignments there are usually trade-offs between time and rate depending upon conditions in the market and also depending upon conditions within the firm; the level of activity currently being enjoyed, the size of the backlog or work in process, and the condition of the business development activity underway.

In the model Exhibit II-5 it is possible to interpret a variety of courses of action offering the best compromises at the group and regional level between the two critical control variables which produce various levels of performance from unacceptable through to satisfactory. Accepting the notion mentioned above that for the most part expenses including professional salaries are fixed, interpolation of the likely result of different compromises in the critical variables will yield an approximation of the 'bottom line'. The facing Exhibit is admittedly a gross oversimplification of the influences at work in the market and within the firm but conceptually it perhaps is sufficient to describe and



emphasize the critical features in the planning and control of a professional services organization, and particularly one in the practice of management consulting.

Achieving a balance is a never ending task on a day-to-day basis. This is one of top management's primary responsibilities in the operation of the practice. It involves a continuing review of business development activities; a continual scrutiny of assignment schedules and the profile of skills currently employed; it involves some trade-offs in assigning staff to client assignments as between highly skilled and experienced professionals working alone as against lesser skilled and experienced professionals working under supervision balancing off the costs of each in the execution of a contract. Negotiating the best price as close to standard as possible for each incoming engagement and controlling the time as close to estimate as is possible and ensuring that an appropriate blend of skills will produce the end result at an acceptable standard of quality for the client and finally planning the start of new engagements so that the right staff is available at the right time and in the right place, are the main complexities involved in the efficient running of a practice and the effective execution of client obligations.

#### ADDENDUM: Market Forecasting - Mathematical Model

##### Economic Influence

Based only on an assumption that there might be a degree of correlation between the market for management consulting services and

some index of economic activity the research postulated that if some such correlation could be established using some reliable measure of consulting activity then a useful predictor of future consulting activity might be developed. Accordingly, I determined that from a management consulting standpoint time measured in hours might provide the most reliable measure of activity although some work was done relating deflated dollars (1971) with deflated economic indicators. Initially, attempts were made to take each regional economy and relate regionally, consulting hours thereto but it was found impossible to obtain a reliable estimate of consulting hours by region and that the regional economies were variously affected by economic swings, buffered in some cases by federal initiatives.

I therefore opted for a national view and for total consulting hours of CAMC members including those of ABA (see data used in Chapter V). In looking for reasonably reliable indicators of economic activity and thinking in terms primarily of dollars spent on consulting services, after some experimentation I concluded that gross national expenditure might prove the most useful and reliable measure and endeavoured to develop formulas linking consulting activity with gross national expenditure. Three formulas emerged from this experimentation and these are shown below:

1. 
$$HRS_t = \left( 1.02 \times \left[ \frac{GNE_{t-1}}{GNE_{t-2}} \right] 1.8 \right) \times HRS_{t-1}$$
2. 
$$HRS_t = \left( 1.023 + 1.88 \frac{GNE_{t-1} - BNF_{t-2}}{GNE_{t-2}} \right) \times HRS_{t-1}$$
3. 
$$HRS_t = .029 \times GNE_{t-1}^{2.2}$$

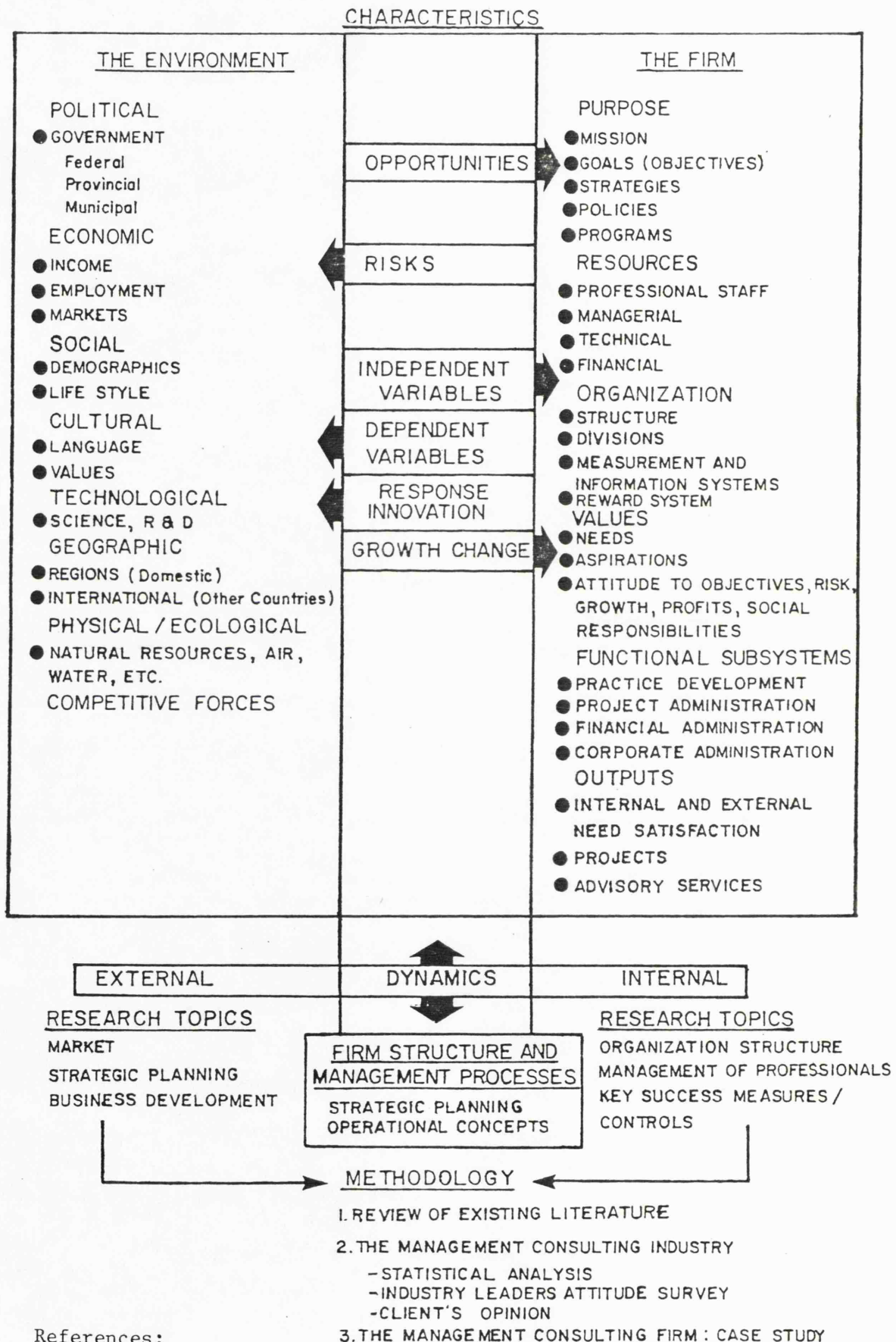
Testing the foregoing formulas for successive years over the period covered by the data contained in the working papers attached to the charts in Chapter V, I concluded that the second formula above provided the most reliable prediction of each successive year, year on year, than either of the other two. There is some 'lag' in the volume of activity in consulting measured in hours as against the level of economic activity as measured by gross national expenditure. This has been built into the formula and at least in the short term, in the period 1971 to 1979 it appears to 'hold up' within a tolerance of 2% - 3% error. This is not to say that it is likely to hold up for all time particularly since, as mentioned elsewhere in this report, the market might be maturing. However, provided the numerical factors are periodically re-examined particularly where major shifts in government policy which might affect economic activity are in evidence, this may serve as a useful predictive model operationally.

No more use for this model is suggested than that it might serve as a useful approach to forecasting trends in the market and in assisting, in the most general terms, in formulating ongoing strategy, particularly in the matter of placing an 'outerbound' on total consulting activity and determining within that outerbound the most likely profile of the market to be served.

This addendum is included in the report, firstly because the approach, although developed by trial and error, has been of practical use to the researcher. It has enabled him as part of the annual planning and budgetary process to forecast size of market as a starting point before considering market share as an objective. Secondly and more importantly,

however, it is included in the hope that it might provide a useful starting point for further research by econometricians to refine and validate or otherwise the underlying premise.

CONCEPTUAL FRAMEWORK  
OF THE  
PROFESSIONAL SERVICES FIRM AND ITS ENVIRONMENT



## References:

Thain (1978)

Christensen et. al. (1978)

Steiner et. al. (1977)

PART 1 SCOPE AND OBJECTIVES OF STUDY

AND RESEARCH APPROACH (CONT'D)

III - RESEARCH QUESTIONS AND METHODOLOGY

APPROACH TO RESEARCH DESIGN

In the preceding chapter I have, based on my experience in this area of research, developed a conceptual framework of the external and internal characteristics of professional services activity and the internal dynamics of the firm interacting with its environment and the external influences which are brought to bear on the firm's performance. I have described these characteristics as I perceive them in some detail and have moved on within the framework to a few strategic planning and operational concepts which hopefully provide some insights into ways in which a professional services firm and particularly a management consulting firm needs to operate in order to survive. Having provided this perspective of my own perceptions I now describe in this section the approach I propose to take in the design for ongoing research. Exhibit III-1 extends the original framework to accommodate the rationale for the research questions and methodology.

I am indebted to the following authors for their detailed explanations and examples in dealing with research of this kind:

Diesing (1971), Glaser (1967), Buckley (1976) and Selltiz (1976).

The foregoing literature review has enabled me to consider the respective merits of the holistic as against the scientific method

in approaching the research topic and relate this to the overall objectives set out in Chapter I of this report.

I have opted for the holistic approach since I wished to examine the whole system or society of professionals and specifically management consultants and wished to consider not only the behaviour, performance, and operations of the 'firm' but also study this in the larger context of the environment in which it operates. In addition, research in this subject area has been limited to date and I believe my approach as a holist, will be beneficial to researchers who follow who might then take individual segments of my research and subject them to scientific and statistical analysis.

Further than this, the approach selected will enable me to use empirical evidence derived from observation and then use the data collected for checking the validity of theories I might develop about recurring themes or patterns of response. The concepts in the preceding chapter are empirically derived from a situational context and I believe these observational concepts are precise enough to focus attention on precise variables. I am also motivated to examine 'reality' by contrast with 'ideal types' derived from mathematical models. The inductive rather than the deductive method is also a factor from my background which exerts an influence. I note that using the holistic approach the 'participant observer' which is the role in which I will be cast in following this approach must be able to step back outside of both environments, the firm and the market, in order to reduce some of the biases in perception which might otherwise exist. I have now been outside this environment and into the academic environment for some 18 months and believe that my

CAMC/ACCA

COMPETENCE OF PRINCIPALS and PROFESSIONAL POSTURE OF THE FIRM

The persons employed in the direction, control and execution of consulting assignments are recognized by the Association as experienced and competent. A majority of the senior members of the firm are members of a provincial Institute of Management Consultants.

The firm has a recognized standing in the field of management consulting and actively supports the Institutes of Management Consultants by encouraging partners and staff to join an Institute and participate in its affairs.

The firm can provide evidence to the Association of a record of competence, ethical conduct, high standards, independence and stability.

OWNERSHIP

The ownership arrangements of the firm are such that no undue pressure or hindrance may be brought to bear on the conduct of professional assignments.

The majority of the work of the firm is for clients other than those controlled, owned, or influenced by the owner or owners of the firm.



CAMC/ACCA

CANADIAN ASSOCIATION OF MANAGEMENT CONSULTANTS

MEMBERSHIP REQUIREMENTS

Membership in the Canadian Association of Management Consultants is open to any management consulting firm in Canada which has recognized standing in the profession, whose practice conforms with the standards of ethical and professional conduct of the Association and which meets the admission requirements prescribed as follows.

SCOPE OF SERVICE

The firm serves clients in commerce, industry, government, or other non-profit institutions on managerial and related operating and technical problems in one or more of the main areas of managerial activity. So long as the service it renders to clients is primarily concerned with managerial problems in which it has demonstrated competence, the scope of its services may range from a recognized specialty in one of the principal areas of managerial activity to advising clients on a broad range of management problems.

The firm has a sufficient understanding of the total design of the institution to maintain perspective when working on specific managerial or operating problems, or combinations of specific problems. This is true even when it is working on technical problems of the institution.

The end products of consulting assignments reflect an understanding of the total institution, satisfy both internal and external requirements and take into account the requirements of the institution as a whole and those of its parts.

Executive Search does not qualify as one of the main areas of managerial activity.

LENGTH OF SERVICE

The firm has been engaged in management consulting in Canada for at least five years. (This period is reduced to three years for firms of known reputation previously established in other countries.)

SIZE OF FIRM

For a continuous period of three years preceding the application, the firm has maintained a minimum full-time staff of eight professional consultants.

biases have been somewhat neutralized and that my attitudes can be 'strained' out of the conclusions I will draw from the ongoing research. I believe furthermore that my method is likely to uncover what is real in my research topic and will be better able because I am no longer working within the system to develop a more objective approach to conclusions which might be derived from the comparative analysis of data and opinion.

In order to validate my role as a qualified participant observer the following qualifications may be of interest:

- Professional Consultant:

1948-1951 - United Kingdom

1954-1980 - Canada and International, including  
U.S.A., Europe, South America and  
Australia

- Organization Responsibilities in a Consulting Environment:

1956 - Manager

1963 - Principal

1968 - Partner

1969 - Regional Partner

1970 - Professional Practices Partner

1975 - Executive Partner of the Total Practice

- Industrial Association (Canadian Association of Management Consultants (CAMC)). See Exhibit III-2.

1963-1975 - Member

1975-1980 - Director

1978-1979 - Treasurer

1979-1980 - President

- Professional Institute (Ontario Institute of Management Consultants) (individual membership)  
1967 - Associate  
1981 - Fellow (awarded only to members who have made a recognized contribution to the advancement of the profession).

The framework and the approach I propose to adopt in carrying through the design of the research are outlined in detail in the following sections of this chapter.

#### DEVELOPMENT OF RESEARCH QUESTIONS

In the previous chapter I used a conceptual framework as an a priori basis to describe the characteristics of the environment and the firm in the first instance, followed by a discussion of a firm's structure and management processes which are likely to influence the way the firm operates in a dynamic sense. Certain strategic and operational concepts were explored for this purpose which the author believes at this point to be fundamental in the operation of a professional services firm. Taking the sketch of that conceptual framework as a basis, the Exhibit III-1 expands the framework in order to develop directions for research which hopefully will lead to a better understanding of the external and internal influences at work on the activities of the firm; the dynamics as it were.

By reference to the Exhibit III-1 and the characteristics and dynamics explored in Chapter II the author believes that there are six key topics which might be explored; three related to the environment or external influences; and three related to the firm, internal influences. These six research topics are respectively:

- External
  - market
  - strategic planning
  - business development
- Internal
  - organization structure
  - management of professionals
  - key success measures/controls.

Taking these six topics for research and considering them not only from the standpoint of characteristics of the environment and the firm but also by reference to the dynamics of a firm's structure and management processes, the following research questions emerged, a priori, as a reasonable starting point:

- External
  1. What external influences appear to affect the market for professional services (consulting)?
  2. To what extent is strategic planning feasible and useful?
  3. What is the scope for business development by professional consulting firms?

- Internal

4. What views are there about organization structure in professional firms and what are the implications?
5. In the management of professionals, what seem to be the critical influences and their implications?
6. What key success measures/controls seem important in a professional services firm and how important are they?
  - Strategic     )
  - ) Financial and Non-financial
  - Operational )

METHODOLOGY TO RELATE RESEARCH  
QUESTIONS TO STUDY OBJECTIVES

Introduction

Turning once more to the Exhibit III-1, the methodology I propose to follow and the underlying rationale is described in more detail under appropriate headings below. Briefly, I propose to review existing literature in somewhat greater depth than heretofore for purposes which will be explained below; I propose to examine the management consulting industry along three perspectives described below and finally I propose to analyze the operations of a management consulting firm as a case study, all with the purpose of answering in one way or another as many of the six research questions developed above.

I am mindful also in my choice of methodology of the need to relate the research questions to the broad study objectives set out in Chapter 1 which are to seek a better understanding of the market for professional services, the external and internal influences and

relationships existing between the market for management consulting and the environment in which it operates, and broadly to examine the operation of a professional services business to better understand the dynamics of strategy/structure/and management processes in the operation of the business.

#### Review of Existing Literature

Because of the author's lengthy experience in management consulting he has been exposed to writings on the subject over the years both from a professional and a management and policy point of view. I have concluded from what might be considered this cursory exposure to the literature that, certainly in the policy area which is the main thrust of this research, there is little which bears directly on the research questions. However, since the policy thrust of this research overlaps to some extent other disciplines I believe an examination of the literature in these other disciplines would be worthwhile as an integral part of the data gathering and justified in being considered as such since the literature is so scattered and from disparate sources.

Accordingly, I will be examining such texts, periodicals, articles and records of speeches which touch on the professions and professionalism and on the functioning of professional organizations and specifically consulting firms in order to discover insights into their operation, particularly in the areas of management and organization, and planning and control. I will not be so much concerned about what they do (scope of practice), as much as how they do it (the patterns or cycles) of operation from business development through project management onto operational control. I will search

literature across several disciplines including general management, sociology, finance and accounting and possibly others, seeking answers to all research questions, however indirectly.

The Management Consulting  
Industry - Statistical Analysis

In the Exhibit III-2 are the membership requirements for any firm in the practice of management consulting in Canada, if they wish to belong to the Canadian Association of Management Consultants (CAMC). It is an industry association and such is its reputation and influence that it is estimated by reasonably reliable sources that the revenue accounted for by the member firms represents some 60% or more of the total market. The management consulting firm used as a case study in this research is a member of this association in the previous chapter and it seems to the author reasonable that with such a significant share of market, data produced by the association might be useful at least as a broad indication of market profiles along several dimensions. Accordingly, although with some reservations, this data base will be explored in a succeeding chapter to gain some insights into some of the environmental characteristics and external influences bearing on the operation of a management consulting firm.

The statistical analysis of the data produced by the industry would seem to be the useful starting point in examining the industry overall and I would hope from the analysis to develop answers to research question No. 1 about the market in fairly precise terms with some insights into the remaining two questions which deal with the external or environmental aspect of the research. It is possible also

that some conclusions might be drawn from this analysis to question No. 6 in the research entitled Key Success Measures/Controls under the heading Internal Influences. Since the author has functioned actively in the affairs of the association he also believes that the data is sufficiently reliable even though confidential as far as individual firms performances are concerned, as to be a useful data base.

The Management Consulting Industry -  
Industry Leaders' Attitudes

I propose in this aspect of my research to approach key representatives in the industry using a questionnaire on attitudes. Rather than asking questions, however, I have developed 'clusters' of statements about different aspects of professional practice. By reference to the framework and research questions set out and described in the early sections of this chapter and by reference to the objectives of this research and the need to know more about cause/effect relationships, I have arranged these clusters of statements (hypotheses) in the following framework:

|                                  | <u>Exhibit Opposite III-5<br/>Research Topic</u> |
|----------------------------------|--|
| - the market                     | 1.   |
| - strategic planning             | 2.   |
| - new business development       | 3.   |
| - organization structure         | 4.   |
| - key success factors/measures   | 6A.  |
| - management of human resources  | 5.   |
| - operational/financial controls | 6B.  |

In the first instance I have so worded the statements as to offset my own biases or assumptions and in some cases statements in one



section reinforce statements in other sections and are also contradictory or conflicting in some situations. I am asking for measures of agreement or disagreement with the statements made, and I am also at the beginning of the set of statements asking three overriding key questions which will be determinants in one way or another of the weight of evidence collected.

These three questions are as follows:

1. The size, in number of professional staff, of the firm which the respondent represents.
2. The number of years spent in professional practice in consulting by the respondent.
3. Whether the firm is affiliated to a public accounting firm or is independent.

A further consideration in the format which I am following in seeking information from practitioners are as follows:

- I want close to 100% response from key representatives of the service sector, and knowing their general attitude toward questionnaires, I have structured my inquiry using a 'multiple choice method' to conserve their time. They are typically practitioners with a heavy client and travel schedule.

- The questionnaire has also been designed to provide for a quick response. I believe it will be more valuable for practitioners to respond to my statements instinctively, the moment they read the statement, rather than give each statement a 'considered' opinion. I am looking for attitudes and perceptions about various aspects of professional practice which are instinctive because it seems to me that these are the influences, external and internal, which have most to do with the shape of the market and trends in the market.
  
- Finally, I can develop several matrices of the responses to the statements, by size of firm, by experience in professional practice, by type of firm, which will enable me to explore any significant deviations which arise out of these differences.

I will be looking for causal/independent variables, intervening variables and dependent variables as described by Dermer, (1977) and, for example, the cluster of statements under the heading 'the market' are mainly causal/independent variables arising in the environment. Intervening variables arise in other sections of the questionnaire and notably under organization structure and management of human resources while dependent variables are well illustrated under key success factors/measures with others scattered through other sections of the questionnaire. I will be looking for linkages between these three sets of variables in examining the responses I receive.

It is hoped that this multipurpose objective will serve to provide sufficient weight of evidence to reach meaningful conclusions about all six of the research questions and probably some general theory about the operations of professional services firms.

#### The Management Consulting Industry - Clients' Opinions

To complete the survey of the management consulting industry, the author felt it might be useful to obtain an outside view of management consulting services which might be useful in examining research questions number 1 related to the market, number 3 related to business development, number 4 related to organization structure and finally to number 6 related to key success measures/controls, however indirect these insights might prove to be. Accordingly arrangements were made to interview six clients, who have used the professional services of the case study firm and are also known to be regular users of consulting services not only of the subject firm but other firms both inside the CAMC but also periodically specialist and off-shore firms. I believe this provides a useful outside perspective on what clients look for in choosing a consulting firm and also what they expect from such firms which signal success.

#### The Management Consulting Firm - Case Study

Chapter VIII of this report is a case study of a multi-disciplinary consulting practice: aligned to a public accounting firm which I believe contains most of the complexities likely to be encountered in most professional services organizations. The operation and performance of this subject case covers a period of 26 years in general and a particularly interesting 8 - 10 year period in the 1970's.

I examine this firstly in the context of the findings from the first four sources of data (Chapters IV to VII) and subsequently against the six research questions in the hope that the issues will then be sufficiently sharp to draw meaningful conclusions overall.

LIMITATIONS ON CONCLUSIONS  
GENERATED BY THE METHODOLOGY USED

No approach to a subject as complex as this one can ever be perfect and the foregoing is no exception. I recognize the existence of a number of shortcomings which will be in evidence in the kind and quality of responses I receive both from representatives in the service sector and also from clients. In the service sector itself, the responses given will be biased in several ways, notably, the attitude of the respondent who himself has been conditioned by his own background, the culture of the firm in which he has gained his experience, and the kind of environment which he has encountered in pursuing his own practice. More than this, different firms began in different ways and at different dates and it is likely that such firms as represented by the respondent will have been subject to different experiences in interfacing with the consulting market and will have been conditioned thereby. Different firms take a different view of their respective areas of practice and the relative importance of those areas of practice one to another internally, as well as the relative importance thereof to the clients they serve. Management consulting, is not the practice of a single profession as commonly understood, but rather is the practice of an amalgam of professions involving the application of different disciplines tailored to fit the solution of client problems. Attitudes towards this by individual practitioners are likely to vary and undoubtedly these variations will

be subtly reflected in their response to some of the statements in the questionnaire. The researcher cannot, within the context of this piece of research, visualize how to allow for these variations nor does he believe they will unduly affect the results of what he is endeavouring to achieve, namely, a general understanding of how professional services organizations operate and the influences at work which affect their operations.

However, one must recognize these limitations and hope that further research in this field by others might be fruitful using a micro as distinct from the macro approach adopted here.

PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONSIV - LITERATURE REVIEWINTRODUCTION

In the preceding Chapter I have benefitted from the writings of Diesing, (1971) (op.cit.), Glaser and Strauss, (1967) (op.cit.), Selltiz, Wrightsman and Cook, (1976) (op.cit.), and Buckley, Buckley, and Hung-Fu Chiang, (1976) (op.cit.), in developing my approach to this research.

In developing my conceptual framework for reference in describing external and internal characteristics of a professional services organization and its environment, I have made reference to the writings of Thain, (1978) (op.cit.), Christensen, Andrews, and Bower, (1978) (op.cit.), and Steiner and Miner, (1977) (op.cit.).

As indicated in Chapter III when describing methodology, I have chosen to treat the literature review as part of my data gathering rather than the more usual approach of uncovering an area for further research. This seems more appropriate in light of my heavy background in professional practice and the multidisciplinary nature of the research itself with its policy orientation.

My approach, therefore, has been, firstly, to look for definitive writings in textbooks, general articles and dissertations on the nature of professional services organizations and specifically on those engaged in the practice of management consulting. With respect to the latter, I have been searching for material to supple-

ment my own experience, not so much about what management consultants do, but rather about how their organizations operate; the operational dynamics and the key variables. I have found much written about what professionals do (areas of practice; accounting, auditing, tax, consulting, law, medicine, etc. and specialty areas therein), but <sup>a</sup>the paucity of research into how they practice (management of the business they are in), and the special characteristics which distinguish professional practice from commercial enterprise. However, that which I have found which would seem to expand on my own experience, I have set out below under an appropriate heading.

Beyond this, and by reference to the objectives of this research I have uncovered with assistance from my supervisors a body of knowledge which I believe is, to a limited extent, relevant to the research questions developed in Chapter III.

Before addressing the research questions via the literature review, however, I felt it would be useful to explore the literature on professionals, professionalism and professional services. The results of this research are presented below.

Literature references by subject heading appear in this Chapter and are also arranged alphabetically by author at the end of this thesis. I have also developed a bibliography of reference material used as background reading but not quoted in the text. This also appears at the end of the thesis.

THE NATURE OF PROFESSIONAL  
SERVICES/CONSULTING

In I-5 to I-18 the author has attempted to describe professional services from his own experience and for purposes of this research. However, there is a body of literature dealing with professionals, professionalism, and professional services which has been sampled, excerpts from which are set out below, particularly as this relates to "what is a professional" and then how management consulting as an emergent profession fits within this context.

Johnson (1972), examines the role of professions in society and relates this to his hypothesis that "occupational organization and practice are to be understood only in terms of the prevailing type of control to which an occupation is subjected". He examines different types of control and postulates that practitioners under different types of control will exhibit beliefs, attitudes and ideologies which diverge from practitioners under other types of control. Bucher and Straus (1961), suggest that professions consist of a loose amalgamation of segments which are in movement and are a function of social change in terms of their influence and power. Bucher and Stelling (1969), develop interesting insights into the concept of professional status, the nature of organizations in which professionals work, the struggle of different groups within an organization for varying levels of professional recognition and the reward for success in the level of autonomy and influence obtained. Coe (1970) looks at the change process in established professions and the attitude of traditionalists in practice toward change as against those recently entering a profession. Daniels (1959), writes a most interesting



paper on the extent to which a professional is influenced in the practice of his profession when he is subjected to constraints imposed in a bureaucratic setting.

Pettigrew (1973), notes that the framework of specialization as an emergent process is very much an issue of conflict, status and power and he studies both the emergence of new specialist groups and the decline of others as the nature of services provided changes. The author also subscribes in his analysis to the "grounded theory approach" by Glazer and Strauss, as the only way to study and conceptualize newer specialist groups.

Wilensky (1964), suggests that as a result of a fairly extensive study, bureaucracy may weaken the service ideal of professionals more than it threatens autonomy and that a client orientation undermines colleague control and professional norms. He also identifies two criteria which distinguish professionals from laymen; firstly, the job of the professional is technically based on systematic knowledge or doctrine acquired only through long prescribed training and, secondly, the professional man adheres to a professional set of norms. Elliot (1973), examines a conflict of ideology between professionals and scientists in handling the same problem and notes differences between senior and junior members of the profession and the science, in themselves having different attitudes both towards one another and towards opposite numbers in each group. Fielding and Portwood (1980), look at the influence which the state plays in the development of professions and conclude that the power of the state in the support of a profession is an important variable in its development. Goode (1960), suggests that there are several features which may be viewed as

sociologically derivative characteristics which make for professionalism; firstly, a prolonged specialized training in a body of abstract knowledge and secondly, a collectivity or service orientation. Gouldner (1957)(1958), in two articles, carries out an interesting analysis of two types of individual practicing in a single profession namely outgoing or extroverted practitioners and the introverted type of practitioner. His analysis focuses on the influence which each group brings to bear on an organization and the implications for theories of organizational analysis and bureaucratic systems of his findings. Bucher and Stelling (1977), develop interesting insights into the "programming effect" of training programs on the professional characteristics of the graduates of such programs. Other thoughts expressed by these writers are that clients should have the right to make their own decisions and hence the right of access to whatever relevant technical information the professionals can provide and moreover the amount of autonomy a profession should have is a decision which rightfully belongs to society at large and that the amount of power and autonomy which professions obtain is a consequence of a political process. They conclude by suggesting that reform seems to be indicated but will involve concerted and sophisticated political work.

Sharpening the focus in the literature survey the author examined writings by Rhode, Sorensen, and Lawler (1977), Senatra (1980), and Dillard, and Ferris (1979), with all authors seeming to reach similar conclusions supporting the contention that difficulties which people have with their organizational roles increase as conflict and ambiguity increase. Generally, these articles

suggest that CPA firms should have, as a goal, not necessarily the elimination of stress, but the containment of stress at levels which are tolerable and low in cost for the individual and the organization. Further than this, one author suggests that an appropriate strategy for reducing staff turnover should focus on changing perceptions of task instrumentality. "...develop individually tailored programs of assignment selection".

Sharpening the focus of the literature survey still further Benham (1980), examines strategy/structure relationships in public accounting firms noting that in a strategic sense management advisory services (MAS) activity in the early growth phase appears to be a reactive response to environmental inducements. MAS activity is supported to the extent that sufficient slack resources permit, without jeopardising core technology or audit service activities. In larger firms which are described as mature growth phase firms, evidence of growth in existing client firms and the presence of rules and procedures to control the quality of client engagements are associated with a propensity to engage in full time MAS practice using the "contracting" approach, essentially as a separate business. The author of this dissertation in his concluding comments notes that the concept of strategic management is intuitively easy to articulate ... it is much more difficult to operationalize. Moreover, the results of the research though somewhat illuminating are far from conclusive. Ultimately, practitioners emulate what works and academicians investigate why it works.

Moving now to a series of texts and articles on consulting, my literature survey started with Zimet and Greenwood (1980), in which

there is a chapter on "Why Management Consultants?" by Peter Drucker. He observes that "the management consultant has come to be taken for granted". "But the management consultant is an extraordinary, and indeed, a truly unique phenomenon. The management consultant is not only a major part of the practice of management, he has been, above all, central to the development of the theory, the discipline, and the profession of management."

On the subject of the practices of consulting, Brooks (1980), outlines the typical scope of practice of the medium sized consulting organization and discusses management consulting as a career and also as a career step. Edmonstone (1980), provides some useful insights into the internal influences at work in consulting organizations. Brown (1980), describes an interesting survey of management consulting over the last twenty-five years in the United Kingdom, while Gummesson (1979), recognizes the differences between the marketing activities of companies involved in the sale of products for commercial services as distinct from commercial activities of firms offering professional services. Murdoch (1979), recognizes the need for management consultants during periods of significant change both in the environment in which the client company operates and also in the internal affairs of a client company. An anonymous article (1979), (Professional Report Journal, Vol. 9, No. 6) acknowledges that management consultants are becoming necessities to business due to technical and economic developments and to political and sociological changes. Beresford and Neary (1979), describe an emerging conflict between public accounting firms in the United States and the Securities and Exchange Commission on the subject of "Conflict of Interest" in the matter

of public accounting firms rendering consulting services to their audit clients.

Boland (1982), critically analyzes the foundations of the profession of accounting and auditing raising questions about the validity of accounting principles and the objectivity of accounting firms toward their clients, particularly when such firms are also involved in consulting activity. Argyris and Schön (1974), raise questions about the effectiveness of professional schools in equipping students to practice their chosen professions, while Argyris (1970), in an earlier work develops his intervention theory which has particular relevance to professional behaviour in dealing with clients and also less directly with management systems used in professional organizations.

Anthony and Dearden (1980), observe that services cannot be stored. If the services available today are not used today, the revenue from these services is lost forever. Drucker (1973, 1974), notes that the career professional - and particularly the specialist - needs a manager. His major problem is the relation of his area of knowledge and expertise to the performance and results of the entire organization. A career professional therefore has a major problem of communication. He cannot become effective unless his output becomes the input of other people. It is the manager, in other words on whom the specialist depends for the integration of his output into the work of others. While the career professional needs a manager to be effective, the manager is not his boss. The manager is his "guide", his "tool", and his "marketing arm". Etzioni (1964),

notes that professionals are difficult to place in the continuum of control by the consumer. Their services, especially when organized in any administrative form, are separate from the fee charged and therefore from direct pressure from the client. He notes also that in professional organizations the staff - professional, line - administrator correlation, insofar as distinctions apply at all, is reversed. Seeman, Melvin (1953), note that a professional at the head of the authority structure of an organization means that professional activity is recognized as the major goal activity, and that the needs of professionals will be more likely to receive understanding attention. Turnbull (1980), concludes that one should be aware of the consulting hustler who manufactures a problem for your company and promises a utopian solution if hired. And in Business Week, May 21, 1979, an article provides useful information on the size of the consulting services sector in North America.

The foregoing synopsis of literature on the subject of professionals and professional services represents the views of sociologists, accountants, management consultants, management and organizational specialists, and others each of whom provides a different perspective on the role and function of the professional in society. The sociologists provide us with insights on how professions emerge, mature, and splinter into specialty groups. Academics tend to focus on the behavioural aspects of professional organizations and professional relationships with clients, while accountants concern themselves with scope of practice of firms with management advisory services and potential conflict of interest in dealing with audit clients. Management and organization specialists

discuss the place of management consulting in business while a number of other authors, unclassified by type, debate the merits or otherwise of the contribution which professionals and specifically consultants make to the economy in general and business specifically. One might debate with any of the foregoing authors the validity of the conclusions they reach either about professions in general and their place in society or management consulting in particular and the role it plays in today's economy. This would not, however, in the author's opinion contribute much to the main purpose of this research. It is perhaps sufficient to say at this point that management consulting and indeed the professions at large are a fact of life in today's world and the mere fact that they are suggests that there is general acceptance by society at large that they play a useful part in society. What I do believe the foregoing synopsis of writings on the nature of professional services does achieve, is that the professions generally and management consulting specifically as an emergent profession are complex groupings in our society, of specialists responding to demands from society to satisfy particular needs arising from time to time. The older professions came into being to satisfy more basic needs while the newer professions and the emergent professions come into being to serve perceived needs in a dynamic environment brought about by an ever changing society. The term professional tends to be ascribed to those rendering personal services who subscribe to a service ideal ahead of commercial or selfish interests and hold themselves out as individuals with integrity and an ability to deal with client's problems objectively and independently.

In summary, the writings of the foregoing authors has tended to confirm the author's intuitive understanding of professionals, professionalism

and professional services as described in Chapter I. Moreover, as a precursor to research into the practice of professionals, it seemed important to the author that his understanding of this type of activity should be firmly based. No further direct reference will be made to this body of literature through the rest of this report since it is not directly relevant. However, the author believes that the analysis which follows on the subject of management consulting as a profession, has been strengthened by this part of the literature survey.

I now turn to the rest of the literature review as this pertains to the conceptual framework in the Exhibit III-1 and to the research questions set out on pages III-5 and III-6.

#### EXTERNAL CHARACTERISTICS

##### The Market (Research Question 1)

Under this heading the author finds much literature dealing with the general subject of marketing but very little dealing with the market for professional services. Specifically, Turnbull (op.cit.), notes "as business becomes increasingly aware of the valid benefits possible through the services of management consultants, the rumors of hatchet-men dissipate and struggling companies regain consciousness". In a Business Week Journal article (op.cit.), it is noted that over the past 10 years in the scope of services offered by the major consulting organizations, the scope of services has shrunk in some organizations who have chosen to focus their marketing efforts into two or three areas of specialization. In the publication Canadian Office, July 1979, an article by Ward entitled Choose a Business



Consultant Carefully, it is noted that "when you consider how much is at stake it does not hurt to seek a professional's advice to help compare costs with potential benefit". However, in the same article it is noted that "many Managers feel it is an admission of failure to use a business consulting firm for advice".

In more general terms Drucker (1973), in his text Understanding the Business, notes that "neither results nor resources exist inside the business. Both exist outside ... results depend on somebody outside - the customer in a market economy, the political authorities in a controlled economy". "Results are obtained by exploiting opportunities, not by solving problems".

In looking out at any market and endeavouring to forecast trends the following authors have this to say: Uytterhoeven et. al. (1977), "strategic forecasting involves primarily predictions not projections. Strategic forecasting is the judgmental approach through which the strategist attempts to predict the future shape of the environmental dimensions". Steiner and Miner (op.cit.), note that in the Spring of 1975, "the economic environment of business was more puzzling, more uncertain, and threatening than at any other time in the preceding quarter of the century". And again they note that "the influence process is extremely complex because most things influence all other things".

They note also that "rates of change among different environments will vary and that the influence of environment on business is not a unilateral force". In the literature I have found little else of a definitive nature for purposes of this research although have found a plethora of material on what consultants do.

Strategic Planning (Research Question 2)

My purpose in examining strategic planning in the context of external influences and the environment has been to seek an interpretation of the environment through this activity. In the literature survey Tilles (1963), notes that "in order to state what a company expects to achieve it is important to state what it hopes to do with respect to its environment". "Bigger is not always better". "It is much more difficult to successfully branch out into new ventures without a precise appreciation of their strategic significance". Uytterhoeven (op.cit.), notes that "logical behaviour during economic boom creates conditions which are likely to lead to behaviour which aggravates the damage of a subsequent economic downturn". Christensen (op.cit.), notes that "it is the unity, coherence, and internal consistency of a company's strategic decisions that gives the firm its identity and individuality and its power to mobilize its strengths and its likelihood of success in the marketplace". "Determination of a suitable strategy for a company begins in identifying the opportunities and risks in its environment". Gilmore (1970), notes that "in order to estimate the consequences of continuing present policies, one needs to study external trends and developments and to make assumptions about the economic outlook, of the shape of future technology, and competitors actions". "In reappraising present policy, one must first look at the company's environment". Hofer (1977), notes that the role of the firm's business strategy is to ensure that internally, its functional strategies are consistent and in tune with the overall changes occurring in its industry and that these strategies are integrated into an effective portfolio that is consistent with the broad changes in the economies in which the firm competes".

### Business Development (Research Question 3)

Having examined the literature related to the market and strategic planning the author felt that the subject of business development might usefully be examined as an additional input to understand the external influences at work on the operation of management consulting organizations. Anthony and Dearden (op.cit.), note that "in most professional organizations no clear dividing line exists between marketing effort and professional efforts". ..... "ethical codes of the professions restrict the amount and character of overt marketing efforts". Further than this the authors note that "the practice of assigning responsibility in a specified share of the market and of measuring performance against targets/budgets, which is common in an industrial company, is difficult, often impossible, to follow in a professional organization", Drucker in Understanding the Business (op.cit.), also identifies the tendency in some organizations to be "lets do a little bit of everything" - personnel research, advanced engineering, customer analysis, international economics, operations research, ... as a result, we build enormous staffs and yet do not concentrate enough effort in any one area". Finally, in the literature survey on this topic Christensen et. al. (op.cit.), note that "every organization must actively recruit challenge if it aims to maintain its position and to grow".

### INTERNAL CHARACTERISTICS

#### Organization Structure (Research Question 4)

Under a previous section of this chapter entitled "The Nature of Professional Services" I have explored the literature at some length and commented thereon. However, one of the authors, Benham (op.cit.),

comes closest to describing structural relationships in the context of my research than any other. His research, to some extent, parallels my own although his focus is on management strategy/structure in a large accounting firm but in a regional territory. He excludes the "Big 8" accounting firms. He focuses strongly on strategy and structure relationships and draws on a number of the same authors as I do, starting from Chandler (1962). His reference to Greiner (1972), describes a five phase model in terms of growth and crises in a professional organization which parallel quite closely the development not only of the consulting services sector but also the case study firm in my research. Benham touches on formalization and specialization as these relate to size and as these facilitate or constrain plans to expand the practice matrix of services in response to environmental pressures. While Benham very thoroughly explores the literature to provide a foundation for his research I believe his focus might usefully have been broadened to explore more thoroughly, strategy/structure relationships instead of moving to a highly quantitative and inconclusive analysis related to the four objectives of his dissertation. In conclusion Benham notes in the matter of strategy and structure that "it is perhaps the privileged domain of the select few who frequently possess neither the credentials of scholarship nor of accomplished experience. He also comments that it is suggestive of a melange of attributes and skills which provide both the catalyst and the synergy necessary to design and implement the course of action which successfully relates an organization to the relevant aspects of its external environment. Such behavioural factors as orientation towards risk, tolerance for ambiguity, beliefs about cause and relationships and personality may prove more crucial in advancing the boundaries of knowledge in the continued emergence

of this discipline". I have much sympathy for what Benham says and he has not been a participant/observer, and I would hope that through my own research the end result will build on his foundation and increase understanding of the complex of interrelationships and interaction between professional services (management consulting - MAS) and its environment.

Summarizing what seemed to me to be the most relevant parts of other literature, I note the following comments made by various authors. Peter Drucker, in 1973 - 1974 in his classic work on management notes that "an increasing number of knowledge workers, will have a 'functional' home, but do their work in a team with other knowledge workers from other functions and disciplines". "Knowledge organizations will increasingly have two axes; a functional one, managing the man and his knowledge; another one the team, managing work and task. Seen one way, this undermines the functional principle and destroys it, seen another way, it saves the functional principle and makes it fully effective. It certainly requires strong, professional, effective, functional managers and functional components". "The test of a healthy business is not the beauty, clarity, or perfection of its organization structure, it is the performance of people". I believe, based on personal experience, that this author has grasped, but somewhat oversimplified, the complexities of professional organizations. Uytendhoeven et. al. (op.cit.), note that "resources have to be related not only to the company's current but also to its future external conditions". "Though your balance sheet is a model ... one asset is omitted - and its worth I want to know; that asset is the value of the men who run the show". "It is a General Manager's task to convert the intellectually formulated strategy through his

organization into an operationally effective one". Christensen et. al. (op.cit.), state that "the successful implementation strategy requires that executives shape to the peculiar needs of their strategy the formal structure of their organization, its informal relationships, and the processes of motivation and control which provide incentives and measure results". "The difficulty of designing an organization structure is directly proportionate to the diversity and size of the undertaking". March and Simon (1967), make a number of inciteful comments about organizations in transition both in terms of the shape of an organization in relation to its environment and the interaction between groups within an organization by reference to perceptions of the external environment and perceptions of one another. A study of this literature provides a useful context to understand and explain the happenings in the case study firm in the '70's through a demerger process. An anonymous article entitled Why Hierarchies Are Superfluous (1979), notes that groups working together will probably replace the traditional notion of hierarchical structure in most organizations and that the traditional hierarchical approach which has influenced organization structure is increasingly less effective in achieving corporate objectives. Professional services organizations have already arrived in this respect by force of professional disciplines. Richards (1978), notes that "professional societies can have considerable impact upon the operations as well as the goals of ongoing organizations". "If power is not concentrated in an executive or bureaucratic coalition, the opportunity for experts to subvert overall organizational goals, to serve instead the professional goals, is present. In organizations whose personnel consist of many experts from different disciplines, the dependence of the chief executive upon matching organizational activity to the pro-

professional inclinations of its most important resources may be substantial". Galbraith and Nathanson (1978), note that "as organizations change their growth strategy in order to employ their resources more profitably in the face of changing technology, income, and population, the new strategy poses new administrative problems. These administrative problems are solved only by refashioning the organization structure to fit the new strategy". "A corollary to this thesis is that if a structural adjustment does not take place, the strategy will not be completely effective, and economic inefficiency will result".

#### Management of Human Resources (Research Question 5)

There is an abundance of literature on organizational behaviour and the role of management in motivating staff such that strategic goals are achieved while maintaining some level of congruence between these goals and those of the individual members of an organization. Tilles (op.cit.), note that "professionals often have motivations that are inconsistent with good resource utilization, and their success, as perceived by their professional colleagues, reflects these motivations. Professionals are motivated by dual standards: (a) those of their organization, and (b) those of their professional colleagues. The former standards are related to organizational objectives; the latter may be inconsistent with organizational objectives". And again Tilles notes that "many professionals, by nature, prefer to work independently". And "although the leadership of an organization may require more management skills than professional skills, tradition often requires the manager be a professional". Mintzberg (1975), talks about the inter-personal roles of the manager or leader of an organization in terms of the

figurehead role; the leader role, and the liaison role. Drucker in Understanding the Business (op.cit.), suggests that "no business is ever secure in its leadership position. The market in which the results exist, and knowledge which is the resource, are both generally accessible". And he goes on to suggest that most executives spend more of their time trying to undo the past ... than tackling the problems of today". Uytterhoeven et. al. (op.cit.), asks the question "Is what the chief executive wants consistent to what is possible in the external environment and with what the company is able to do in terms of its internal resources?" And again he notes that "it is success itself which necessitates the transition from entrepreneurship to professional management. Growth strains the existing organizational setup". Christensen et. al. (op.cit.), note that "presidents contribute their personalities to the quality of life and performance in their organizations. They establish in their demeanor even more than in policy statements, the moral and ethical level of performance expected". And "the essential integrity of the chief executive becomes an important requirement ... the skills of the effective personal leader are those of persuasion and articulation ... having something worth saying ... personal poise in adversity or emergency ... acknowledgement of one's personal needs and integrity as a person". And again a somewhat penetrating observation that "if the status of corporate presidents as professional persons is not manifest in their concern for their organizations, they will not perform effectively over time ...". MacMillan (1978), observes that "in order to cope with the problems of coordinating a complex organization facing a complex environment the organization sub-divides itself into specialist parts ... however, by the very fact that it does sub-divide, the organization creates for itself problems of insuring



that the many separate sub-tasks are coordinated and controlled". Galbraith (1977), makes a fine distinction between leadership and management which I believe to be important in professional services organizations". He talks of two dimensions of leadership behaviour; initiating structure and showing consideration, recognizing at the same time that the influence of a leader outside of the immediate work group lends support or otherwise to the balance a leader displays in his initiating behaviour and consideration behaviour. In a professional services organization he also believes this balance is critical and is subject to change depending upon the age of an organization and having in mind in an organization of professionals their propensity to think and act independently. Gilmore (op.cit.), notes that "where there is a need to influence individual minds (such as might be the case in a professional organization) to agreement on specific issues, persuasion by argument is not only necessary but of utmost importance". Hardwick and Landuyt (1966), comment that "leadership is a dynamic phenomenon. It is the cohesive force which holds the group intact, the accommodating factor which makes it possible for members to live together, and the disciplinary power that keeps the unit as a whole moving towards a goal". In discussing the attributes of leadership these authors among others note that "first, (the leader) thinks and acts much more dynamically. Second, he possesses those intangible qualities which make it possible for him to 'spark' an organization in extraordinary effort". "He must have this latter quality to obtain the unusual performance necessary to strategic action". Further "a real leader is strategic". The authors also note that "organizational peace is not automatically forthcoming". "Morale is a state of mind as reflected in attitude".

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"Morale is not a stable quality". And "the administrator who fully

appreciates this fact will understand the extreme importance of strategic action. He will remain alert in his treatment of his employees, and will be quick to take that action or counter-action necessary to 'shore it up' or 'build it higher'. On the other hand the authors suggest that "the administrator and his organization can pay a high price for over-concession to human relations. It can mean an unbalanced orientation in the whole administrative performance - looking only to the welfare and pleasure of personnel rather than the enduring health of the organization which employs them".

The authors also have this comment on the 'hero role' of the chief executive. "So favourable is administratorship to heroic stature that any executive may be tempted, at least occasionally, to consider himself as a hero". "The trouble is ... that the executive who identifies himself strongly and generally with the heroic role allows his desire for personal enhancement to get out of hand". "A common practice ... is to attempt to take credit for all that is accomplished in the organization and disclaim all that fails". On the subject of decision making the authors note that "the 'right' decision - the decision most proper to the situation - is not always the conclusion the maker reaches. He may fail by far to make this decision because his talents or resources are seriously lacking". And "control is a major function of the business administrator. It is part and parcel of his leadership role ... control ... is the means or act of assuring that subordinates singly, and collectively, keep their eyes on the organizational goals as the target, and direct their efforts to the maximum of efficiency toward it". The administrator ... "must have a network of sub-leaders, who will normally have to work through

a bureaucracy ... all control will go for nought if the function of supervision, which is located at the action ends of management, is not skilled and faithful". And finally, in the literature survey on this topic I have been influenced by the comments of Greenleaf (1977), who comments that "a mark of leaders, an attribute that puts them in the position to show the way for others, is that they are better than most at pointing that direction". As long as one is leading, one always has a goal. It may be a goal arrived at by group consensus, or the leader, acting on inspiration, may simply have said, "lets go this way". And finally the author notes that "the institution is strongest when all parties have adequate power for their role; and it is weakest where one of the elements has too little power, because then someone has too much and the corrupting influence of power is moving toward the absolute".

In relating a professional services organization to the foregoing the researcher suggests that since the only asset which a professional organization possesses is its personnel, its human resources, its professionals, then leadership and the effective management of human resources is one of the most critical aspects in the functioning of the business. The quality of that leadership is yet one more key success factor or key variable from which flows the success or otherwise of the enterprise.

#### Key Success Measures/Controls (Research Question 6)

Continuing the reference to the conceptual framework, exhibit II-1 the author, on pages II-26 to II-29 highlights the need as with any other organization, to know, on a continuing basis, whether a professional's individual and collective efforts are successful judged

by the usual criteria. In examining these criteria the author's research into the literature starts with Tilles (op.cit.), who notes that, "in a professional organization, the professional quality of the people is of primary importance, and other considerations are secondary. Further quotations note that in accounting firms, engineering firms, and research development firms, the proportion of professional personnel is relatively high. These firms understand the basic economic principle of division of labour with its favourable impact on profitability. "The billed time ratio, which is the ratio of hours billed of total professional hours available is watched closely". "The measurement and control of quality is difficult". "Measurement of the revenue generated by 'professional's marketing effort' often is not feasible". Hofer and Schendeld (1978), note that "it is normally far more useful to limit the list of key success variables to, say, five factors and spend more time on getting a proper weighting among these five and on accurately rating the firm's competitive position on each of them than it is to try to get a comprehensive list of 10 or 15 factors". On III-11 I also acknowledge the work of Dermer (op.cit.), who in Chapter V-177 to 184 of this text, sets out a three-point diagnosis to set the stage for a systematic approach to system design. Having dealt with strategic mission and an organization's expectations, he provides a useful framework of causal and intervening variables as a framework for monitoring the achievement of an organization's strategy.

Anthony and Dearden (op.cit.), note that "some professionals, notably scientists and engineers, are reluctant to keep track of how they spend their time and this complicates the task of measuring performance". And further "for many consulting contracts, the client pays

no 'profit' as such, although it knows full well that an amount equivalent to profit is built into the daily rates for professionals ...". The authors note further that because the resources that a professional organization has, the time of its staff, cannot be stored in inventory, ... much attention is or should be given to scheduling the time of professionals". Drucker in Management: Task, Responsibilities, Practices, (op.cit.), emphasizes that controls need to focus on results ... it is the customer only who creates a 'profit' ... everything inside a business creates only costs, is only a 'cost center' ... we can easily record and therefore quantify efficiency, that is, efforts ... we have very few instruments to record and quantify effects, that is, the outside". And again "controls are needed for measurable and non-measurable events". Drucker also notes that controls follow strategy and ... control by 'exception' ... that is only significant shortfalls below an established standard should be reported". He notes further that "controls must be meaningful" "should be based on a company's definition of what our business is, what it will be, and what it should be". "Controls have to be timely". "Controls must be operational ... focused on action". There are many texts which focus on the specifics of operational controls but in the matter of specifics they tend to deal with industrial and commercial organizations where various aspects of the process and the end product can be quantified and more easily measured and controlled. Professional services have not received the same attention in the literature.

## CONCLUSIONS

In addressing Research Question 1 "What External Influences Appear to Affect the Market for Professional Services (Consulting)?"

My literature review contributes little. Turnbull (op.cit.), notes that there are benefits possible through the services of management consultants who are now gaining respectability in the marketplace. Drucker notes that businesses in general are dependent for their results on the customer in a market economy or the political authorities in a controlled economy. Results are obtained by exploiting opportunities, not by solving problems, although in this latter respect Drucker is probably referring not to client problems but to internal problems. Finally, Steiner and Miner (op.cit.), note that in the Spring of 1975, (a year which falls in the middle of the research period, the economic environment of business was more puzzling, more uncertain, and threatening than at any other time in the preceding quarter of a century. These authors also note that "rates of change among different environments will vary and that the influence of environment on business is not a unilateral force".

Research Question 2 deals with the feasibility and usefulness of strategic planning (in professional services businesses). Again the literature does not address this question directly but Tilles (op.cit.) notes that "in order to state what a company expects to achieve it is important to state what it hopes to do with respect to its environment". Christensen (op.cit.), notes that it is the unity, coherence and internal consistency of a company's strategic decision that give the firm its identity and individuality and its power to

mobilize its strengths and its likelihood of success in the market-place". Gilmore (op.cit.), suggests that one needs to study external trends and developments and to make assumptions about the economic outlook, of the shape of future technology and competitive action in order to estimate the consequences of continuing present policies. Hofer (op.cit.), talks about the need for a firm's functional strategies being consistent and in tune with the overall changes occurring in its industry and also consistent with the broad changes in the economies in which the firm competes. I would agree with these general statements and believe they apply to professional services no less than they apply to most other business but as to whether and to what extent strategic planning is feasible and useful in a professional services environment remains unanswered in the literature.

In the matter of business development and the scope for this by a professional consulting firm in Research Question 3, two authors make useful comments. Firstly, Anthony and Dearden (op.cit.), note that in most professional organizations no clear dividing line exists between marketing effort and professional efforts" ... "ethical codes of professions restrict the amount and character of overt marketing efforts". Secondly, Drucker (op.cit.), also notes "the tendency in some professional organizations to do a little bit of everything" and as a result "we build enormous staffs and yet do not concentrate enough effort in any one area".

Research Question 4 which poses the question "What Views Are There About Organization Structure in Professional Firms and What Are the Implications?" is explored quite thoroughly by Benham (op.cit.),

and he focuses quite strongly on strategy and structure relationships drawing on a number of authors used in this report. His five phase model of growth and crises in a professional organization parallels quite closely the experience of this writer in the case study firm. It is perhaps unfortunate that Benham chose to move toward a highly quantitative analysis in addressing the four objectives of his dissertation, since this tended to narrow his focus and produce inconclusive results. Drucker (op. cit.), highlights the need for "the matrix form of organization in groups of knowledge workers" and other authors in more general terms discuss the importance of linking structure to strategy with the latter related closely to the external environment.

The literature review was particularly useful in addressing Research Question 5 (what seem to be the critical influences and their implications in the management of professionals). Tilles (op. cit.), particularly notes that professionals are motivated by dual standards: those of their organization and those of their professional colleagues, with the possibility of conflict of loyalties. Galbraith (op. cit.), makes a fine and important distinction between leadership and management in professional services organizations. Harwick and Landuyt (op. cit.), also focus on leadership and relate this to strategy formulation and morale building. Other comments by these authors about the role of the chief executive and the leadership/management function will have particular relevance, I believe, to the analysis of the case study firm in Chapter VIII.

Finally, in Research Question 6 where I ask the question as to what key success measures/controls seem important in a professional



services firm, Tilles (op.cit.), notes that in a professional organization the professional quality of the people is of primary importance but that the measurement and control of quality is difficult. More than this he notes that the measurement of the revenue generated by a professional's marketing effort often is not feasible. Anthony and Dearden (op.cit.), note that some professionals, notably scientists and engineers are reluctant to keep track of how they spend their time and this complicates the task of measuring performance. These authors also note that the resources of a professional organization, the time of its staff, cannot be stored in inventory and that the scheduling of the time of the professional is therefore critical. Drucker (op.cit.), among others comments about control. He notes that control follows strategy, controls should be by "exception", controls must be meaningful and that controls have to be timely. These latter comments have of course general application across most businesses and this author has found little of particular significance which addresses the research question other than the comments of Tilles, Dermer, and Anthony and Dearden.

In summary, while the literature review has served the purpose for which it was designed, namely, a data gathering activity across several disciplines, the author has benefitted most from what has been written about professionals, and the nature of professional services. Little has been found which bears directly on the first three research questions under the heading of external/environmental characteristics dealing with the market, strategic planning, and business development in professional services organizations. Some useful comments by various writers are made about organization structure in a professional environment while much more is relevant

to the management of human resources (Research Question 5) and little has been uncovered which addresses Research Question 6 on key success measures/controls. These findings would therefore seem to justify the need for this research and it is hoped that the next three chapters dealing with various aspects of the management consulting sector will contribute most to the first three research questions where the literature review revealed little. More than this, the author expects that Chapter VI on Industry Leaders' Attitudes will be quite productive on all six research questions and that Chapter VIII which deals with a case study firm will serve as a useful piece of comparative analysis on all six research questions against the findings from the industry survey.

PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONS (CONT'D)V. THE MANAGEMENT CONSULTING INDUSTRY;  
STATISTICAL ANALYSIS

While the subject of my research is the dynamics of professional services organizations, I am concentrating on the management consulting sector for purposes of this analysis in the hope that, because of its multiple professions and disciplines, and its national scope, conclusions can be drawn related to each of the various single profession and discipline organizations such as those referred to in the first chapter of this report. I would hope that ongoing research into these latter types of professional services organizations will confirm this view.

MARKET PROFILE

The focus in this chapter is on the first three research questions which relate to external/environmental factors (i.e. market conditions and influences) affecting the operation of a professional services firm. For purposes of the analysis which follows and again by reference to comments made in Chapter III, I am assuming that the market data for the member firms of the Canadian Association of Management Consultants (CAMC) is sufficiently representative of the total market for management consulting as to enable one to draw reasonably valid conclusions about the influences at work and the trends in evidence because of those influences. As noted previously it is estimated by reasonably reliable sources that the revenue accounted for by the member firms of CAMC accounts for some 60% or more of the total market. Accordingly, it is based on this assumption that I proceed with the analysis which follows.

# SECTORAL ANALYSIS OF CAMC MARKET

(1972-1978: \$'000)

| INDUSTRY CLASSIFICATION      | 1972     |      | 1973     |      | 1974     |      | 1975     |      | 1976     |      | 1977     |      | 1978     |      |
|------------------------------|----------|------|----------|------|----------|------|----------|------|----------|------|----------|------|----------|------|
|                              | \$       | %    | \$       | %    | \$       | %    | \$       | %    | \$       | %    | \$       | %    | \$       | %    |
| 1. Agriculture               | 155      | .8   | 448      | 1.9  | 558      | 1.6  | 350      | .9   | 260      | .6   | 1,323    | 2.9  | 1,502    | 2.4  |
| 2. Forestry/Fishing/Trapping | 184      | .9   | 371      | 1.6  | 955      | 2.7  | 642      | 1.7  | 703      | 1.7  | 645      | 1.4  | 691      | 1.1  |
| 3. Mines/Quarries/Oil Wells  | 633      | 3.2  | 679      | 2.9  | 1,435    | 4.1  | 2003     | 5.3  | 1824     | 4.4  | 3,282    | 7.2  | 3,064    | 4.8  |
| 4. Construction              | 580      | 2.9  | 534      | 2.2  | 907      | 2.6  | 1007     | 2.6  | 1020     | 2.4  | 1,038    | 2.3  | 1,061    | 1.7  |
| 5. Wholesale/Retail          | 852      | 4.2  | 1213     | 5.1  | 2,094    | 6.0  | 1803     | 4.7  | 1902     | 4.5  | 2,259    | 5.0  | 2,105    | 3.2  |
| 6. Manufacturing             |          |      |          |      |          |      |          |      |          |      |          |      |          |      |
| 7. Paper & Allied Products   | 4,594    | 3.2  | 6187     | 25.8 | 8,412    | 24.1 | 9470     | 24.8 | 10592    | 25.4 | 10,105   | 22.1 | 15,615   | 24.7 |
| 8. Chemicals                 | -        |      |          |      |          |      |          |      |          |      |          |      |          |      |
| 9. Transportation            |          |      |          |      |          |      |          |      |          |      |          |      |          |      |
| 10. Commun./Utilities        | 1,516    | 7.6  | 1576     | 6.6  | 3,233    | 9.2  | 3377     | 8.9  | 3666     | 8.7  | 4,900    | 10.7 | 5,855    | 9.3  |
| 11. Finance/Ins./Real Estate | 1,499    | 7.6  | 2066     | 8.7  | 2,014    | 5.8  | 3175     | 8.3  | 2881     | 6.8  | 3,573    | 7.8  | 5,662    | 9.0  |
| 12. Service Industries       |          |      |          |      |          |      |          |      |          |      |          |      |          |      |
| 13. H-E-W                    | 2,672    | 13.4 | 3054     | 12.8 | 4,682    | 13.4 | 5201     | 13.6 | 6538     | 15.5 | 4,815    | 10.5 | 6,578    | 10.4 |
| 14. Govt. - Municipal        | 1,312    | 6.6  | 739      | 3.2  | 2,293    | 6.5  | 1816     | 4.7  | 1322     | 3.2  | 1,341    | 2.9  | 3,469    | 5.5  |
| - Provincial                 | 1,623    | 8.2  | 1643     | 6.9  | 3,362    | 9.6  | 4200     | 11.0 | 5213     | 12.4 | 5,304    | 11.6 | 7,075    | 11.2 |
| - Federal & Foreign          | 4,271    | 21.4 | 5318     | 22.3 | 5,024    | 14.4 | 5139     | 13.5 | 6063     | 14.4 | 7,174    | 15.6 | 10,566   | 16.7 |
| SUB TOTAL                    | 7,206    | 36.2 | 6700     | 32.4 | 10,679   | 30.5 | 11155    | 29.2 | 12598    | 30.0 | 13,819   | 30.1 | 21,110   | 33.4 |
| TOTAL                        | \$19,891 | 100  | \$23,828 | 100  | \$34,969 | 100  | \$38,183 | 100  | \$41,984 | 100  | \$45,759 | 100  | \$63,243 | 100  |

FUNCTIONAL ANALYSIS OF CAMC MARKET

(1971-1978) \$'000)

| FUNCTION                            | 1971    |      | 1972    |      | 1973    |      | 1974    |      | 1975    |      | 1976    |      | 1977    |      | 1978    |      |
|-------------------------------------|---------|------|---------|------|---------|------|---------|------|---------|------|---------|------|---------|------|---------|------|
|                                     | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    |
| Gen. Mgt. Organ. & Planning         | 4857    | 21.6 | 5878    | 25.6 | 5788    | 21.4 | 18192   | 22.2 | 10045   | 24.8 | 11198   | 25.5 | 13090   | 25.5 | 11160   | 18.4 |
| Data Processing                     | 4318    | 19.2 | 2733    | 11.9 | 3854    | 14.2 | 5653    | 15.3 | 7769    | 19.3 | 8126    | 18.5 | 9482    | 18.1 | 16003   | 25.3 |
| Finance and Control                 | 2878    | 12.8 | 2386    | 10.4 | 3199    | 11.8 | 4208    | 11.4 | 4390    | 10.9 | 5185    | 11.8 | 8139    | 15.5 | 7992    | 12.5 |
| Executive Search                    | 2586    | 11.5 | 2747    | 12.0 | 3842    | 14.1 | 5637    | 15.2 | 5622    | 14.0 | 5536    | 12.6 | 6091    | 11.6 | 6451    | 10.2 |
| Personnel Services                  | 1686    | 7.5  | 1999    | 8.7  | 2459    | 9.0  | 3594    | 9.7  | 3350    | 8.3  | 4757    | 10.8 | 4450    | 8.5  | 5431    | 8.6  |
| Economic Studies & Res. Development | 562     | 2.5  | 1924    | 8.4  | 2142    | 7.8  | 1864    | 5.0  | 2094    | 5.2  | 2819    | 6.4  | 3943    | 7.5  | 6575    | 10.4 |
| Operations Management               | 4318    | 19.2 | 3436    | 15.0 | 3834    | 14.1 | 5852    | 15.9 | 4484    | 11.1 | 3583    | 8.2  | 3854    | 7.4  | 4961    | 7.8  |
| Marketing                           | 1282    | 5.7  | 1833    | 8.0  | 2054    | 7.6  | 1962    | 5.3  | 2597    | 6.5  | 2711    | 6.2  | 3120    | 5.9  | 4290    | 6.8  |
| TOTAL                               | \$22487 | 100. | \$22936 | 100. | \$27172 | 100. | \$36962 | 100. | \$40351 | 100. | \$43195 | 100. | \$52169 | 100. | \$63243 | 100. |

## REGIONAL ANALYSIS OF CAMC MARKET

(1971-1978) \$'000

| REGION                    | 1971    |      | 1972    |      | 1973    |      | 1974    |      | 1975    |      | 1976    |      | 1977    |      | 1978    |      |
|---------------------------|---------|------|---------|------|---------|------|---------|------|---------|------|---------|------|---------|------|---------|------|
|                           | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    | \$      | %    |
| ONTARIO                   | 12368   | 55.0 | 13303   | 58.0 | 15434   | 56.8 | 17295   | 46.8 | 18716   | 45.4 | 18986   | 45.4 | 20803   | 41.9 | 28132   | 46.1 |
| QUEBEC                    | 4722    | 21.0 | 4358    | 19.0 | 4999    | 18.4 | 7431    | 20.2 | 8860    | 21.9 | 8865    | 21.2 | 10275   | 20.7 | 13577   | 21.5 |
| BR. COLUMBIA              | 1574    | 7.0  | 1376    | 6.0  | 2798    | 10.3 | 4034    | 10.9 | 3843    | 9.4  | 3762    | 9.0  | 5084    | 10.3 | 4792    | 7.6  |
| ALBERTA<br>(SASK. & MAN.) | 2249    | 10.0 | 2294    | 10.0 | 2282    | 8.4  | 4167    | 11.3 | 4517    | 11.2 | 4309    | 10.3 | 3908    | 7.9  | 5025    | 7.9  |
| MARITIMES                 | 899     | 4.0  | 917     | 4.0  | 1168    | 4.3  | 2227    | 6.0  | 1881    | 4.7  | 1927    | 4.6  | 2391    | 4.8  | 2942    | 4.6  |
| U.S. & INTNL              | 675     | 3.0  | 688     | 3.0  | 4891    | 1.8  | 1770    | 4.8  | 2536    | 6.3  | 4002    | 9.5  | 5764    | 11.5 | 6343    | 10.0 |
| TOTAL                     | \$22487 | 100. | \$22936 | 100. | \$27172 | 100. | \$36924 | 100. | \$40253 | 100. | \$41851 | 100. | \$49701 | 100. | \$63243 | 100. |

STATISTICAL ANALYSIS OF CAMC OPERATIONS

(1971-1978: \$'000 AND VARIOUS)

| ITEM  | 1971     | 1972     | 1973     | 1974     | 1975     | 1976     | 1977     | 1978     |
|---|----------|----------|----------|----------|----------|----------|----------|----------|
| Number of member firms                            | 13       | 13       | 14       | 14       | 15       | 15       | 16       | 18/19    |
| Number of professional staff                      | 633      | 645      | 720      | 858      | 890      | 857      | 973      | 1123     |
| Gross Revenue (\$'000)                            | \$22,487 | \$22,936 | \$27,172 | \$36,962 | \$40,351 | \$43,195 | \$52,169 | \$63,243 |
| Number of clients served                          | 2,915    | 2,933    | 3,189    | 4,797    | 4,984    | 4,694    | 5,545    | 6,886    |
| Number of assignments (excluding<br>Exec. Search) | 4,156    | 4,036    | 4,536    | 7,261    | 7,392    | 7,296    | 7,858    | 8,028    |

Source: Annual Survey Reports; Canadian Association of Management Consultants (CAMC).

The data used in this section is directly and indirectly related to the revenue generated by the industry over the period 1971 - 1978 and the trends and shifts in emphasis in evidence over this period about which I will seek to identify possible causal variables or influences before moving on to draw tentative conclusions related to the appropriate research questions.

My first reference in analysing this data is to the Exhibit V-1 entitled Statistical Analysis of CAMC Operations which consists of a summary analysis followed by regional, functional, and sectoral analyses of the market.

Over the period 1971 - 1978 professional staff increased overall by 77.4% and at an annual compounded rate of 8.5%. The years 1973, 1974 and 1977 and 1978 saw significant additions to staff while the year 1971, 1972 were flat and 1975 to 1976 showed negative growth. Gross revenue in that same period saw an overall percentage increase of 181% or an annual compounded rate of 16%. However, reducing this to 1971 constant dollars, the overall increase was 83% and an annual compounded rate of 8.7%, slightly more than the rate at which professional staff increased. Not too surprisingly, the revenue generated in each of the years 1971 through 1978 parallels the periods of growth and non-growth identified under the comments about professional staff.

Turning now to the regional, functional, and sectoral analyses of this market, the respective profiles, in terms of the distribution of revenue in each of the three analyses from 1971 to 1978 are as follows:



#### G. OPERATIONS MANAGEMENT

- Production and inventory planning and control
- Productivity studies
- Process control systems
- Materials management
- Methods improvement
- Performance standards and incentives
- Plant layout
- Quality control
- Maintenance planning and control
- Facilities planning and evaluation
- Clerical work standards
- Warehouse location studies
- Distribution and transportation studies

#### H. MARKETING

- Marketing planning, policies and strategies
- Export Marketing
- Market research studies
- Forecasts
- Product diversification studies
- Pricing criteria
- Promotion programs
- Sales management
- Public Relations
- Advertising and merchandising

GUIDELINE DESCRIPTIONS: MANAGEMENT FUNCTIONS

a. GENERAL MANAGEMENT, ORGANIZATION  
AND PLANNING

Organization planning  
Corporate objectives, strategies  
and policies  
Long and short range planning  
Profit improvement programs  
Merger and acquisition studies  
Management reviews  
Government planning and policy, and  
strategies  
Operational and comprehensive auditing  
Multi-disciplinary project management

b. DATA PROCESSING

EDP Feasibility studies  
Applications planning  
Programming  
Data processing  
EDP systems design and  
implementation  
Hardware and Software studies  
EDP performance evaluation  
EDP project control Systems  
Mathematical models and techniques  
Operations research

c. FINANCE AND CONTROL

Management controls and reporting  
systems  
Management information systems  
Financial analysis and planning  
Management control systems  
Accounting methods and  
procedures  
Cost systems  
Zero Based Budgeting

d. EXECUTIVE SEARCH

Executive search  
Executive appraisal and selection  
Testing

e. PERSONNEL SERVICES

Personnel policies  
Management by objectives  
Performance evaluation and appraisal  
Profit sharing systems  
Benefit plans  
Wage and salary administration  
and surveys  
Contract negotiation assistance  
Psychological services  
Training and development programs  
Compensation studies  
Management development programs  
Organization development  
Attitude surveys

f. ECONOMIC STUDIES AND RESOURCE  
DEVELOPMENT

Infrastructure development  
Economic feasibility studies  
Urban Planning  
Environmental studies  
Industry feasibility studies  
Economic studies and forecasts

Source: Annual Survey Instructions. Canadian Association of  
Management Consultants (CAMC).

Regional

|                           |             |   |    |
|---------------------------|-------------|---|----|
| *Ontario                  | 51%         | ± | 9% |
| Quebec                    | 20%         | ± | 2% |
| B.C.                      | 8.5%        | ± | 2% |
| Prairies                  | 9%          | ± | 2% |
| Maritimes                 | 5%          | ± | 1% |
| U.S. and<br>International | 7%          | ± | 5% |
|                           | <u>100%</u> |   |    |

|                         |            |   |    |
|-------------------------|------------|---|----|
| * Federal Gov.          | 18%        | ± | 4% |
| Ontario<br>(excl. Fed.) | 33%        | ± | 5% |
|                         | <u>51%</u> |   |    |

Functional (for definition, see Exhibit V-2)

|  |             |   |    |
|--|-------------|---|----|
| General Management<br>Organization and<br>Planning | 23%         | ± | 3% |
| Data Processing                                    | 19%         | ± | 6% |
| Finance and<br>Control                             | 12%         | ± | 3% |
| Executive Search                                   | 13%         | ± | 3% |
| Personnel Services                                 | 9%          | ± | 2% |
| Economic Studies<br>and Resource<br>Development    | 6%          | ± | 4% |
| Operations Manage-<br>ment (Production)            | 12%         | ± | 5% |
| Marketing  | <u>6%</u>   | ± | 2% |
|  | <u>100%</u> |   |    |

Sectoral Analysis

|   |             |       |    |
|---|-------------|-------|----|
| Natural Resources<br>including Agri-<br>culture, Forestry,<br>Fishing, Trapping,<br>Mines, Quarries,<br>Oil Wells | 8%          | $\pm$ | 3% |
| Construction  | 2%          | $\pm$ | 1% |
| Wholesale/Retail  | 5%          | $\pm$ | 1% |
| Manufacturing   | 24%         | $\pm$ | 2% |
| Transportation and<br>Utilities   | 8%          | $\pm$ | 2% |
| Finance, Insurance/<br>Real Estate  | 7%          | $\pm$ | 2% |
| Service Industries<br>including Health,<br>Education and Welfare  | 13%         | $\pm$ | 3% |
| Public Sector   | <u>33%</u>  | $\pm$ | 3% |
|   | <u>100%</u> |       |    |

The regional profile of the market suggests that collectively the provinces of Quebec, British Columbia, the Prairie Provinces and the Maritime Provinces yield 42% of total revenue and is relatively stable across the period. Ontario, excluding the Federal Government and the U.S. and International Markets account for 40% of the market and is relatively volatile as also is the revenue derived from the Federal Government. Outside of the revenue derived from the U.S./International, however, not too surprisingly perhaps, is that the revenue distribution across the domestic market roughly parallels the demographic distribution with Ontario being slightly more and Quebec slightly less while all of the others are relatively in line. More will be said on the significance of this distribution later in this section.

Examining now the functional distribution of revenue, or range of services offered by management consulting firms, general management (organizational development and planning) accounts for almost a quarter of total revenue and appears to be relatively stable across the period. Likewise, finance and control, executive search, personnel services, and marketing, accounting for approximately 46% of the revenue, are relatively stable components of the total distribution. Data processing around the 20% mark has been quite volatile over the period as has operations management (production), with the two functional areas accounting for 31% of the total. Here one sees some shift in the type of services rendered with implications for the scope of practice of member firms; this again being considered at some greater length later in this section.

The sectoral analysis of revenue indicates a remarkable degree of stability in the distribution of revenue across all sectors. Manufacturing, paper and chemicals account for close to 24% but the most significant component in this distribution is the 33% of revenue derived by member firms from the public sector. Natural resources, including agriculture, forestry, fishing, trapping, mines, quarries, and oil wells are relatively stable taken together at 8% of revenue paralleled by transportation and communications and utilities with a similar share of market, financial institutions at 7%, wholesaling/retailing at 5% and construction at 2%. 70% of the total market for consulting over this period would therefore appear to lie in the three sectors; public sector, manufacturing, and service industries which perhaps has implications for the level and kind of sectoral expertise which must be present in professional services organizations like management consulting. More details on the implications of this revenue distribution are given later in this section.

PERFORMANCE INDICATORS

Turning again to the Exhibit V-1, entitled Statistical Analysis of CAMC Operations, I have added to this data from other sources the chargeable hours appropriate to this period 1971 to 1978. I have also obtained key statistics for 1979 and in Appendix H, I have translated this data into a set of working papers converting revenue to constant 1971 dollars and in turn have converted this data to chart form. There are three charts in Appendix H as follows:

1. Gross Revenue (\$1971) Per Professional
2. Hours Per Professional
3. Average Rate Per Hour (Professional) in \$ 1971.

The deflator which has been used for each of the years 1971 through 1979 is the one ascribed to the services industry sector by Statistics Canada and appears in the working paper in the exhibit ranging from 1971 - 100.0 through to 1979 - 183.0.

In order to examine the consulting market as defined, as distinct from and uninfluenced by the performance of the case study firm - ABA, I have removed ABA's data from the total market and the significance of ABA's data relative to the market will be examined in Chapter VIII. The market data, excluding ABA, is shown on the charts as a solid line with individual years shown as a dot.

In the first chart depicting gross revenue (\$ 1971) per professional, one sees a trending down with the high in the period occurring in

1973 followed by a gradual falling off in revenue earned per employee in the last 6 years of the period. The implications of this will be examined later in this section.

Contrarywise, in examining hours per professional one sees a fairly consistent increase over the period from a low of 1,067 hours per employee to a high in 1977 of 1,306 hours per employee. The implications of this will also be examined in this sub-section.

Finally, in the third chart I examine the average rate per hour per professional in \$ 1971. This recovery rate appears to fall steadily from a high of \$32.11 in 1971 steadily downwards with two minor deviations to a low of \$25.45 in 1979. The implications of this trend together with the previous two trends are now explored.

In summary, we have falling gross revenue in \$ 1971 per employee; increasing number of hours per employee through the period, the natural outcome being a falling average rate per hour recovered per professional.

#### CONCLUSIONS RELEVANT TO RESEARCH QUESTIONS

Having examined the market as defined by the revenue earned by members of CAMC in terms of the regional, functional and sectoral profiles of that market in the period 1971 - 1978, attention is now directed towards the trend and shifts in each element of each of those three profiles over the same period. Reference will continue to be made to the exhibits referred to above but in addition reference will also be made to Appendices A & B at the end of this report which sets

## CAMC - MARKET PROFILE - GROWTH CHARACTERISTICS

(1971 - 1978)

|                                   | Current \$      |                     | Constant 1971 \$ |                     |
|-----------------------------------|-----------------|---------------------|------------------|---------------------|
|                                   | Overall Percent | Annual Rate Percent | Overall Percent  | Annual Rate Percent |
| <u>REGIONAL</u>                   |                 |                     |                  |                     |
| Ontario                           | 127             | 12.5                | 24               | 3.5 *               |
| Quebec                            | 188             | 16.0                | 57               | 7.0                 |
| British Columbia                  | 204             | 17.5                | 66               | 7.3                 |
| Prairies                          | 123             | 12.4                | 22               | 2.8                 |
| Maritimes                         | 227             | 19.0                | 79               | 8.2                 |
| U.S. & International              | 840             | 38.0                | 413              | 26.0                |
| Total                             | 181             | 16.0                | 83               | 8.7                 |
| <u>FUNCTIONAL</u>                 |                 |                     |                  |                     |
| Gen. Mgt. Org. Pln                | 130             | 12.5                | 26               | 3.5                 |
| Data Processing                   | 271             | 21.0                | 103              | 10.8                |
| Finance & Control                 | 178             | 15.8                | 52               | 6.8                 |
| Executive Search                  | 149             | 13.5                | 36               | 3.8                 |
| Personnel Services                | 222             | 19.0                | 69               | 8.0                 |
| Econ. Studies/<br>Resource Devel. | 1070            | 42.0                | 539              | 30.0                |
| Operations Management             | 15              | 0                   | 37               | 3.7                 |
| Marketing                         | 235             | 19.2                | 83               | 8.7                 |
| Total                             | 181             | 16.0                | 83               | 8.7                 |
| <u>SECTORAL</u>                   |                 |                     |                  |                     |
| Agriculture                       | 869             | 38.0                | 430              | 26.0                |
| Forestry/Fishing/<br>Trapping     | 271             | 21.0                | 105              | 10.8                |
| Mines/Quarries/<br>Oil Wells      | 384             | 25.0                | 164              | 15.0                |
| Construction                      | 83              | 8.1                 | 0                | 0                   |
| Wholesale/Retail                  | 147             | 13.5                | 35               | 3.8                 |
| Mfg, Paper, Chemicals             | 240             | 19.3                | 86               | 8.8                 |
| Transp. & Utilities               | 286             | 21.4                | 111              | 11.0                |
| Finance/Ins./Real Est.            | 278             | 21.2                | 106              | 10.8                |
| Services/N.E.W.                   | 146             | 13.5                | 35               | 3.8                 |
| Public Sector                     |                 |                     |                  |                     |
| Municipal                         | 164             | 14.6                | 45               | 4.7                 |
| Provincial                        | 336             | 23.2                | 138              | 12.9                |
| Federal/Foreign                   | 140             | 13.3                | 35               | 3.8 *               |
| Sub-total                         | 193             | 16.7                | 60               | 7.0                 |
| Total                             | 181             | 16.0                | 83               | 8.7                 |

\*Includes Ottawa - Federal Government

Ontario excl. Fed. Gov. 117 11.9 19 2.4

Source: Annual Survey Reports, Canadian Association of Management Consultants (CAMC).



out CAMC/ABA gross billings by regional and by function in graphic form. Finally, reference will be made to the conceptual framework set out in the Exhibit III-1 to provide the linkage between the analysis which follows and the research questions.

#### External Characteristics/Influences

In the first part of the conceptual framework set out in the Exhibit II-1, a listing of external characteristics/influences was provided, and is repeated in the Exhibit III-1. The nature of these external characteristics and influences was described on pages II-2 to II-20. The author will endeavour in the succeeding analysis to identify these influences in addressing the research questions.

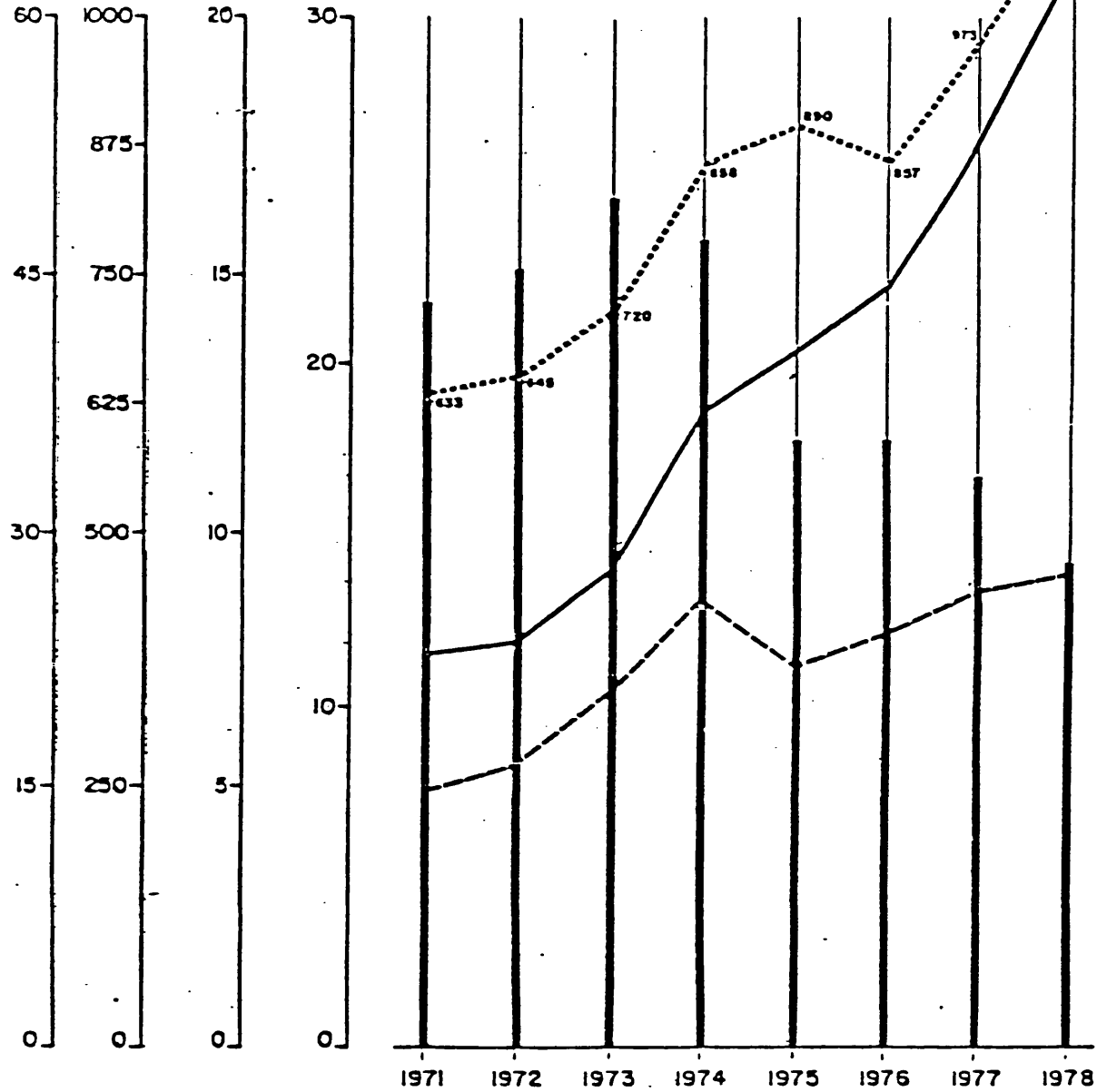
#### The Market (Research Question No. 1)

What external influences appear to affect the market for professional services (consulting)? The Exhibit V-3 sets out the market profile of CAMC in terms of its growth characteristics over the period 1971 - 1978 by region, by function, and by sector measured as a percentage of change overall and annually using current dollars and constant 1971 dollars. On the face of it real growth, in excess of the average 8.7% annual rate, namely 25% annually is in evidence in the U.S. and International markets, with the Maritime Provinces; New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland, and British Columbia just slightly under the overall average. Ontario; including the Federal Government at 3.5% annually and Ontario excluding Federal Government at 2.4% annually, as well as the Prairie Provinces of Alberta, Saskatchewan, and Manitoba, are less than half of the average annual percentage rate compounded of growth in the

Exhibit V-4

GROSS BILLINGS

| CAMC<br>\$ MILLIONS | CAMC<br>STAFF | ABA<br>\$ MILLIONS | %<br>MARKET |
|---------------------|---------------|--------------------|-------------|
|---------------------|---------------|--------------------|-------------|



TOTAL

Source: Annual CAMC and Case Study Firm (ABA) Statistics.

period 1971 - 1978.

Functionally, the main growth areas on an annually compounded growth rate percentage, in real terms are economic studies/resource development, data processing and marketing. Conversely the market in operations management (production) has declined significantly between 1971 - 1978.

By industry sector, the three natural resources sectors; agriculture, forestry/fishing/trapping, and mines/quarries/oil wells, are well above the average rate of growth as is transportation, communications and utilities and the financial services sector. In the public sector the Provincial Governments would seem to have demanded consulting services in excess of the overall average annual growth rate.

Turning now to Exhibit V-4, and examining gross billings for CAMC over the period, while recognizing that the chart is drawn in current dollars and therefore the solid line on the chart is somewhat 'steeper' than real growth in total, overall, one notes the years 1973 and 1976 onwards are periods of relatively rapid growth while the years 1972 and 1975/76 are slow growth or no growth. Referring back to the exhibit (Conceptual Framework) in Chapter II and considering what external characteristics might be present in the market, the most obvious answer, although by no means conclusive, is that the years 1972 and 1975 to 1976 were period of recession in Canada while the periods of growth mentioned above could have been influenced by political and social change as well as the impact of tech-

nology in certain functional areas. These external characteristics (causal variables) will be examined in more detail later in this section to determine whether they have substance. The first six charts in Appendix A, indicate trends in the regional markets and, with the exception of U.S. and International, all, to a greater or lesser extent, illustrate the recessionary effects felt in the regions of Canada in the years 1972 and 1975/76. British Columbia, with its heavy dependence on pulp and paper and natural resources, coal and iron, is noticeably affected while the Prairies, 'a sleeping giant' in the early 1970's wards off the recession until the year 1976. The effects in Ontario are not so noticeable perhaps because this effect is 'buffered' by Federal Government expenditures included in that total which advance steadily as a component of the Ontario region. Quebec is noticeably affected in the year 1972 and 1976 and the Maritimes in all three years. The U.S. and International sectors, being less affected by economic conditions in Canada but more importantly because CAMC members in the early 1970's are only just 'discovering' an international market do not reflect the pattern in the domestic regions.

Looking a little more closely on a region by region basis into other influences at work, in British Columbia in the year 1973/74 there was a change in government from conservative to socialist with the conservatives not having availed themselves of consulting services to any significant extent prior to that time. A number of large studies were initiated and the period was also characterized by a booming market in pulp and paper products as well as contracts to supply off-shore customers with coal and iron ore (Japan).

The year 1977 continues this trend after shaking-off, the recessionary effects, with 1978 being characterized by fairly considerable labour unrest in the province and an unusual number of lengthy strikes.

The political scene in the Prairie Provinces is fairly stable with the main province, Alberta, strongly conservative as it has been for many years. This province is the leader in natural resources, notably oil, gas, and grain. Its neighbour, Saskatchewan, contrarywise has been steadfastly socialist for many years and is strong also in grain, heavy oil, but notably potash, being one of the world's largest suppliers of potash. Manitoba politically has been strongly socialist until the late 1970's and is possibly the weakest of the Prairie Provinces in terms of natural resources, its main product being grain. Following the 'oil crisis' in 1973, one notes the years 1974 and 1977 and 1978 being periods of rapid growth and development and in the provinces concerned being less impacted by the recessionary periods 1975 and 1976 because they are suppliers of the essentials, oil, gas, and food. It therefore, may be possible to assume that consulting organizations would enjoy growth from this rapid development occurring under relatively stable political conditions.

As indicated above under the general profile for Ontario excluding the Federal Government, this region accounts for 33% plus or minus 5% of the total revenue of CAMC members. It is the most populous region and the most diversified by sector. Its main strength is manufacturing and financial institutions followed closely by wholesale/retail and transportation and utilities.

As one might expect also, because of the underlying demographic considerations its provincial and municipal sectors are large and well developed. While Ontario is lacking in natural resources such as oil and gas, its remaining natural resources as well as all other sectors of the regional economy are probably the most developed in the country. This then plus a stable political climate which, provincially, has been conservative for some 30 or more years, produces the kind of steady but not particularly spectacular growth in its market and one might likewise perhaps assume the market for consulting services. It is however, noteworthy that the year 1978 is marked by more rapid growth which might be attributable variously to heavier than usual provincial government sector spending in the transportation field with consulting services involved, and also in the financial services sector where Ontario is particularly strong and where one starts to see the influence of rapidly changing technology which will be commented on later.

In Quebec, the chart illustrates the recessionary effects in the years 1972 and 1976 but in the other years in the period 1971 - 1978 there are steep increases in the growth of the market for consulting services. Before attempting to speculate on the underlying influences and causes for these effects, it is important to understand certain key aspects of the Quebec region. In certain respects it is a 'different country' in the sense that, while officially bilingual as are the other provinces of Canada by virtue of the British North American Act (recently repatriated), it is predominantly French speaking, predominantly Roman Catholic, and its culture derived from its French origins. Its social

mores also tend to be influenced by hereditary French ways of life.

Until 1973 the politics of the Province of Quebec tended to be either right-wing Liberal or left-wing Conservative with little or no socialist tendency. The language of the public sector, provincial and municipal, and also the judiciary, was and still is French speaking. The legal system at the provincial level follows the 'code Napoleon', while the rest of Canada tends to follow the English legal system. 'Big business' has been and to an extent continues to be dominated by parent organizations outside the province and also by inter-provincial and international trading patterns, and the language, particularly in the 'Boardroom' and at the top management level was English. Industry sectors with close and continuous interaction with the public, notably wholesale/retail, transportation utilities, financial institutions, and service industries have been bilingual.

At the social and cultural level in Quebec in the post-war years and accelerating in the 1960's was a growing need for 'identity' and at the more radical fringe a desire for a separate existence nationally. In the early 1970's these growing needs expressed themselves politically and a new political party 'Parti Quebecois' tried twice unsuccessfully to win elections finally succeeding in 1973. From a business standpoint this changing government produced profound effects as a result primarily of the passing of 'Bill 101' which called for the francocization of all business of consequence operating in the

province. From a theoretical bilingual position, therefore, the private sector underwent significant change in terms of requirements calling for communication, both oral and written, to be in the French language and for certain proportions of the staff in organizations of consequence to be French speaking.

This primary causal variable at the political level produced some negative reaction in the private sector with some businesses leaving the province. But, for the most part, organizations operating in the province including the offices of management consulting firms, proceeded to introduce French language into its staff complement by hiring French speaking personnel or transferring out of the province those professional personnel who could not or would not learn the French language. This intervening variable at the individual firm level served to reinforce the government mandate arising from Bill 101 and the 'French' market, both public sector and private sector, a previously undeveloped market, started to grow. Hitherto, the management consulting firms practising in the province of Québec had concentrated on working with 'big business' in the English language, and purely French speaking consulting firms were virtually non-existent. With the 'French fact' having been accepted by the national consulting firms and with the need by the new government for reform in many areas of its administration this also opened up the market in the public sector which had previously been either disinclined or unable to draw on consulting advice in the French language. The foregoing would seem to be the primary influences at work in this region accounting at least for some of the growth in evidence in the market for



consulting services in the years 1974/75 and the years 1977 onwards. Quebec is the second most populous region after Ontario and it is interesting to note that, as indicated in the Exhibit V-4, its growth rate is twice that of Ontario which includes the Federal Government and nearly three times the growth of Ontario excluding the Federal Government and all the more notable because this growth is concentrated in four years out of the eight years covered in the period 1971 to 1978. |

In the next chart in Appendix A covering the Maritimes we are dealing with four provinces who are generally regarded as the 'have not' regions of Canada. With the exception of Newfoundland in more recent times than the years being considered, these provinces are not well endowed with natural resources with the exception of Nova Scotia and its heavy coal deposits. However, transportation is a problem in dealing even with this natural resource and overriding all of the foregoing is the fact that these provinces are, relative to Ontario, Quebec and British Columbia, sparsely populated. Fishing and timber are sectors of key importance. Such manufacturing and service industries as are present in these provinces tend to be of the 'branch plant' variety serving a thin market and tending to be marginal in operation. As might be expected the years 1972, 1975, and 1976 the impact of recession is readily apparent but the years 1974, 1977 and 1978 do show significant growth in the market for consulting taking the overall year over year average rate of growth for the region as indicated in the Exhibit V-4, to 8.2%. In the researcher's experience of these

years one of the primary causes could possibly be the Federal Government's concern over these 'have not' provinces and the years when this upsurge of activity in the consulting market comes into evidence, in these same years the Federal Government agency called DREE (The Department of Regional Economic Expansion) was particularly active in cost sharing programs with these provinces endeavouring to strengthen and stimulate various industry sectors both by conducting extensive surveys of resources and opportunities and investing with 'seed money' in existing operations, for example, in the marginal steel plant in Cape Breton, Nova Scotia, the Sydney Steel Corporation.

The region referred to as United States/International, illustrated on the chart in Appendix A, shows that from the year 1974 through 1977 a period of expanding markets was enjoyed by the member firms of CAMC. Unfortunately, it is not possible to separate consulting work in the U.S. from work elsewhere internationally, since this would provide an interesting differentiation between consulting activities in the U.S. by those firms who are aligned with public accounting firms and those who are independent. One suspects that work of a consulting nature in the U.S. by Canadian accounting aligned firms is quite limited, and that which is in fact undertaken is by independent Canadian firms. The reasons for supposing that this is the case is that firstly, the consulting firms aligned with public accounting firms, particularly the large ones are part of international public accounting firms who are strongly represented in the U.S. and have their own consulting services. There is an 'unwritten' rule about 'territorial invasion',

the effect of which for consulting firms aligned to public accounting firms is that each serves its own territory and does not invade the other. More than this, however, U.S. immigration regulations are stringent in the matter of off-shore consultants doing work in the U.S. Border crossings are inclined to be difficult, with the U.S. government taking the view that adequate expertise is available domestically leaving it to the U.S. client using Canadian consulting services to 'make a case' for importing expertise from Canada.

Outside of the United States, however, the assumption made for which there seems little alternative is that the growth in the international market is largely outside of the United States by aligned and non-aligned consulting firms in Canada stimulated possibly by the Federal Government's initiatives through the Canadian International Development Agency (C.I.D.A.). In the early 1970's this Agency started to concern itself increasingly with underdeveloped countries, notably the Caribbean and the French speaking countries in the Middle East. Loans and grants were made to 'host' countries in these regions to use Canadian resources to stimulate their respective economies. Preceding any investment in capital facilities by these countries a requirement usually was that feasibility studies should be undertaken of the merits of each proposal submitted by 'host' countries. It is suggested here that this was possibly an influence on the market for management consulting services internationally which might account for, part at least, the accelerating activity in the years 1974 through 1977. The fall-off in the year 1978 might possibly be accounted for by an

investigation and re-examination of C.I.D.A.'s priorities in Ottawa and a change in the Chief Executive of that Agency around that time. Following this period the researcher is aware that the focus in the Caribbean particularly, has shifted to agriculture, education, and tourism. All that perhaps can be said about the foregoing is that there is an external influence at work which is political in nature, the extent of which cannot be measured from the data available. The eight charts which follow those referred to above and contained in Appendix B, cover the growth of the market functionally (type of services). I propose to deal only with the most notable features in this dimension of the market dealing only briefly with those areas of practice where growth has been steady with no obvious external influences at work. Falling into this latter category is general management/organizational planning and development, marketing, finance and control, and personnel services. Operations management (Production) seems to be a field of management consulting which is 'drying-up'. In the early part of the century consulting 'cut its teeth' on time and motion studies under the impetus of Taylor. The market for plant layout, production control and time and motion studies remained a reasonable active market for management consulting in Canada beyond the Second World War until possibly the early 1960's. With advancing technology leading to more automation of operations which hitherto had been labour intensive, coupled with the 'branch plant' economy of Canada (the systems and expertise provided by off-shore parents) there would seem to have been increasingly less opportunity to practice in this field and the results are in evidence in the period 1971 through 1978.

In computer applications (data processing) starting in the year 1973 one might perhaps speculate that rapidly advancing technology in this field, firstly in hardware, from Remington Univac through IBM's 1401 series followed by its 360 series and more recently followed by the miniaturization thrust, clients have been obliged to call for outside assistance in feasibility studies, systems design, etc. to keep pace with change. In the software area increasing sophistication in computer languages moving through Fortran, Cobol, and PDP into packaged systems, clients have needed to keep pace. From a methodological point of view there has been the move from batch processing into real time processing, again influencing clients to call for assistance since they were unable to develop internal resources fast enough to meet their own needs. The market has also tended to expand to include smaller and smaller organizations as the cost of computer equipment and software has fallen. Also in evidence not too surprisingly, is the pressing need for service industries, notably financial institutions whose paperwork is its life blood, to move to computerization merely in order to stay abreast of ever increasing volumes of business. One might speculate that this market for consulting services has enjoyed the growth that it has, because technology has outstripped the ability of business to internally generate its own resources to cope with change.

The Executive Search (Executive placement field) would seem to have fallen away in the period 1975 onwards with only a modest increase in 1978. Here, the writer speculates that the market

for this type of activity is as buoyant and probably even more buoyant than it was in the first half of the decade. However, the buoyancy of the market has attracted specialist organizations, entering the market, whose sole area of practice is Executive Search. By definition, firms who have one area of practice only cannot become members of CAMC so that this part of the market starts to be taken up outside of our definition of the market. Further than this, however, one of the rules of professional practice of CAMC which has even more force for members who are aligned to public accounting firms, is that consulting assignments cannot be undertaken on a contingency fee basis. Those practicing solely in the area of executive placement tend to practice almost completely on a contingency basis with fees being a percentage of the starting salary of the executive once the search has been completed. No placement - no fee. Contrast this with fees based on time whether the search is successful or not and one might conclude that the 'contingency house' has a distinct marketing advantage. The fact that part of the market would seem to have eroded is evidence and yet part of the market remains, possibly because of the loyalty of clients to their consulting and public accounting organizations and also because their efforts have enjoyed reasonable success and satisfactory performance in earlier years.

Finally, in the area of economic studies and resource development, management consultants have enjoyed good markets in the years 1974 and 1977, 1978 and beyond. Federal as well as Provincial initiatives in 'opening up the country' in these years have perhaps influenced the performance of the consulting industry at

the same time. In the periods 1972 through 1974 one saw emphasis placed on building second airports in busy locations and expanding road and rail communications. In the period 1976 through 1978 and beyond, Provincial initiatives in British Columbia, Alberta, and Quebec, domestically, and internationally in more recent years, have focused on natural resources as distinct from communications and transportation and these perhaps have influenced the consulting market.

Sectorally, the foregoing comments can be seen reflected in the sectoral analysis of the CAMC market in the Exhibit V-1. The surges in natural resources and in transportation and utilities and financial institutions in the years designated above are in evidence. Likewise in the public sector notably in provincial and in federal and foreign expenditures, as a percentage of the whole, show up notably in the years 1972 and 1973 and in the years 1976 through 1978. In the Federal sector it is worth noting that an additional factor influencing the market in a direct way were the activities of the Auditor General. In the mid 1970's he made his classic comment "the Government has lost control of the privy purse". At that time the Auditor General's department was quite small in terms of staff and in order to improve controls over expenditures at the Federal level a number of programs were initiated (S.P.I.C.E. and others under other acronyms) requiring the marshalling of heavy management consulting resources to move on these programs with speed. The Auditor General himself was an ex-managing partner of one of the national firms of management consultants so this outcome was not too surprising and exerted a direct influence on the market for consulting

in the second half of the 1970's and into the 1980's.

In summary, the foregoing commentary has explored the various dimensions and growth characteristics of the market, as defined and tentatively ascribed wherever possible, the external influences or causal variables, which might be seen to have affected the market along these various dimensions.

#### Strategic Planning (Research Question No. 2)

#### Business Development (Research Question No. 3)

The extent to which strategic planning was feasible and useful during the survey period or what the scope for business development was by professional consulting firms, cannot be determined directly from the data available. One might safely assume that external influences alone as described under Research Question No. 1 above did not shape the market as it evolved over the research period. There was, on the face of it, real growth, in excess of 8.7% annually in constant dollars, which is almost three times the rate of growth in the same period of gross national product. However, this growth was uneven during the time period under review and it was uneven regionally, functionally, and sectorally, some of which can undoubtedly be ascribed to external influences described above but one might also speculate that some of the unevenness is due to the initiatives taken by the management consulting sector in planning for and exploiting opportunities regionally, functionally, and sectorally. The author does not feel able to go beyond this by reference to the data available but hopefully, in Chapter VIII dealing with the case study firm will be able to provide hard evidence to answer these two questions.



## Internal Characteristics/Influences

### Organizational Structure (Research Question No. 4)

### Management of Human Resources (Research Question No. 5)

The data in this Chapter provide no insights which would prove helpful in answering these two research questions. The data, afterall, relates primarily to the market for management consulting with the only information available related to professional staff shown on the Exhibits V-1 and V-5. Over the period 1971 - 1978 professional staff increased overall by 77.4% and at an annual compounded rate of 8.5%. This does at least suggest that the consulting services sector has been a growth phase, being in excess of the rate of growth of GNP and that presumably the professionals employed by the 18 member firm of CAMC are finding the structure and management approach of the member firms sufficiently attractive and supportive as to have facilitated this rate of growth.

### Key Success Measures/Controls (Research Question No. 6)

Under the section entitled Performance Indicators earlier in this Chapter, gross revenue and professional hours were examined in order to isolate two of the more critical success measures in the consulting business.

The significance of the percentage of controllable time charged to clients and the percentage of standard rate realized was described and examined in some detail in Chapter II by reference firstly to the conceptual framework and secondly as an operational concept where the interplay of these two forces were

illustrated in Exhibit II-5. One is striving continually in the industry and in individual firms to achieve the optimal mix in terms of gross revenue between the percentage of time which is charged to clients and the percentage of standard rate which can be recovered from each hour of that time. On the one hand from the point of view of hours charged there is a strong internal influence or intervening variable which prompts an industry and an individual firm to maximise the use of its internal resources, and achieve the best level of productivity of those resources. Two compelling reasons require this; firstly, they are high cost resources and a relatively fixed cost of the industry and the individual firm and, secondly, part of the professional culture is that a professional's morale is high when he is provided with maximum opportunity to practice his profession. Examining that dimension it would seem that the industry (CAMC excluding ABA) has been successful in the management of its human resources with a steady increase in productivity. Using 1600 hours per annum per professional as the benchmark for controllable time (excluding weekends, statutory holidays, vacation and an allowance for sickness) the percentage of such time chargeable to clients has moved from a low in 1971 of 67% through to a high in 1977 and 1979 of 81% and better. However, a countervailing influence externally in the market, seems to be a falling off of gross revenue per professional and consequently erosion in the average rate per hour achieved in \$ 1971. Three mutually reinforcing influences may be conspiring to produce this trend; firstly, increasing price sensitivity on the part of clients in the private sector, secondly, tighter regulations covering consulting fees in the public sector (at the federal

and provincial level), and thirdly, increasing competition among the member firms of CAMC tending to force down quoted fees to clients as the market appears to mature and needs are satisfied more readily and the pressure from within organizations to optimize chargeable time. In this latter respect as mentioned in Chapter II and indicated above in the management of consulting practices there is a continuing trade-off between chargeable time and realized rate and the combination of these forces may have brought about the realization that, on balance, volume through increased productivity is somewhat more preferable to standard price and that the net effect on the 'bottom line' is a better result because of a smaller commitment to the number of professionals, because of increased productivity, that one needs to have on staff. However, in summary, over the period 1971 - 1979 the interplay of the two forces of chargeable time and realized rate has produced a slowly declining gross revenue per employee which might suggest as a residual effect that competitive forces have increased in a maturing market and one might also speculate, that if the remaining costs, relatively fixed, of operating consulting practices have remained the same, there has been some slight loss in profitability in this type of professional services organization.

PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONS (CONT'D)VI - INDUSTRY LEADERS' ATTITUDES AND OPINIONSINTRODUCTION TO ATTITUDE SURVEY

In order to probe the external and internal characteristics bearing on the operation of a management consulting firm and to assess attitudes of industry leaders toward independent and dependent variables, the writer developed a questionnaire with covering letter, contained in this report as Appendix C. This questionnaire is referenced earlier in this report in Chapter III when describing the methodology proposed for the research. The writer positioned himself as a 'participant observer' in developing the questionnaire, drawing on fairly extensive consulting experience, and out of that experience developing a set of 50 statements divided among seven major categories, with these 50 statements addressing the most fundamental issues bearing on the operation of a professional services (management consulting) firm. It was felt by the writer that if an expression of opinion could be obtained on these fundamental issues it might come some way toward meeting the objectives of the research and provide insights into the approaches taken by such firms and the value systems influencing such firms as they position themselves in the environment. The seven major categories referred to are as follows:

External

- A. The Market
- B. Strategic Planning
- C. New Business Development

Internal

- D. Organization Structure
- E. Key Success Factors/Measures
- F. Management of Human Resources
- G. Operational/Financial controls.

These topics relate back to the conceptual framework in Chapters II and III and are translated into the six research questions set out in the latter chapter.

Apart from the 50 questions sub-divided into seven categories referred to above, the questionnaire was also designed such that it would be possible to study the results along three dimensions; firstly, by size of firm based on the number of professional staff; secondly, by number of years in management consulting of the respondent (the firm); and thirdly, by affiliation, whether the consulting firm was part of a public accounting firm or operated independently.

The population chosen for the research by questionnaire was the member firms of the Canadian Association of Management Consultants. As stated earlier in this report, it is generally felt in this industry sector that the member firms of CAMC collectively account for possibly 60% or more of management consulting work done in Canada. More than this, collectively the respondents represent some 300 or more years of consulting experience and are responsible for some 1600 practising members in the management consulting field.

Before releasing the questionnaire to all member firms, an exposure draft was sent to the Executive Committee of the CAMC (six senior

heads of firms) to seek their advice on whether indeed, the statements requiring opinion were generally representative of the fundamental issues facing consulting firms. Samples were completed by members of the Executive Committee to pretest comprehension and the comprehensiveness of the questionnaire, whereupon it was released to the heads of all 19 firms in the Association.

Overall, a number of the statements were phrased in order that the writer's bias should not be evident and a number of statements were also positioned throughout the questionnaire expressed in different ways, although asking the same question, as a means of testing the consistency of the responses.

One hundred percent response was received. However, one arrived much later than all of the others and after a summary of results from 18 respondents had been published. It was therefore decided to discard this last response to avoid the possibility of bias. The overall response rate was therefore 95 percent with 100 percent response from the independent firms and 92 percent from those firms each of whom is part of a public accounting firm. The distribution between the two affiliations were 11 from respondents with consulting firms aligned to public accounting firms and 7 respondents in charge of consulting firms who are independent. A summary of the results, by size of firm, by experience, and by affiliation against all statements made in the questionnaire are set out in Appendix C.

The first step toward an analysis of the results as these relate to the research questions, was to determine whether there were significant differences in responses between the profiles of the

three dimensions in the analysis; size of firm, experience of respondents, and affiliation; such as to justify a complete examination of all three characteristics.

The second area of interest was to devise a technique which could highlight significant differences in opinion about some of the statements.

The third area of interest was to determine what means might be used to seek out 'clusters' of opinion about certain of the statements showing general agreement; a collectivity of opinion across some if not all of the categories of statements.

Set out below are the results of the analysis described above with some description of the techniques used to arrive at the conclusions.

#### CROSS-TABULATION OF RESULTS USING 'T' TEST ANALYSIS

To simplify the analysis a 2 X 2 matrix was formulated as follows:

1. Size of firm - Group 1 -  $\leq$  90 professional staff;  
Group II -  $>$  90 professional staff.
2. Experience - Group 1 -  $\leq$  15 years;  
Group 2 -  $>$  15 years.
3. Affiliation - Group 1 - affiliated;  
Group II - independent.

This three way cross-tabulation using a matrix approach was sufficient to indicate a fairly even distribution throughout the three dimensions. The three classification variables appear to be fairly independent and I concluded that each should be explored looking for differences and similarities in the opinions expressed by the respondents. The actual distribution of these descriptors is as follows:

|                     |                   | <u>EXPERIENCE</u> |                 |           |
|---------------------|-------------------|-------------------|-----------------|-----------|
|                     |                   | <u>Group 1</u>    | <u>Group II</u> |           |
|                     |                   | $\leq 15$         | $> 15$          |           |
| <u>SIZE OF FIRM</u> | Group I $\leq 90$ | 5                 | 3               | <u>8</u>  |
|                     | Group II $> 90$   | 4                 | 6               | <u>10</u> |
|                     |                   | 9                 | 9               | <u>18</u> |

|                     |                   | <u>AFFILIATION</u>   |                    |           |
|---------------------|-------------------|----------------------|--------------------|-----------|
|                     |                   | <u>Group 1</u>       | <u>Group II</u>    |           |
|                     |                   | <u>Public Acctg.</u> | <u>Independent</u> |           |
| <u>SIZE OF FIRM</u> | Group 1 $\leq 90$ | 5                    | 3                  | <u>8</u>  |
|                     | Group II $> 90$   | 6                    | 4                  | <u>10</u> |
|                     |                   | 11                   | 7                  | <u>18</u> |

|                   |                   | <u>AFFILIATION</u>   |                    |          |
|-------------------|-------------------|----------------------|--------------------|----------|
|                   |                   | <u>Group 1</u>       | <u>Group II</u>    |          |
|                   |                   | <u>Public Acctg.</u> | <u>Independent</u> |          |
| <u>EXPERIENCE</u> | Group 1 $\leq 15$ | 4                    | 5                  | <u>9</u> |
|                   | Group II $> 15$   | 7                    | 2                  | <u>9</u> |
|                   |                   | 11                   | 7                  | 18       |



The second area of interest was to determine significant differences in opinion along the foregoing three dimensions against 50 questions set out in the Attitude Survey. As with the cross-tabulation just described, a computer program called a 'T' test seemed most appropriate.

Using the two group approach for the three main dimensions defined above, a computer analysis was made to test for any significant difference in the mean response on each of the items between groups.

The results of this analysis are set out in the Appendix I, where for each of the three dimensions, the questions where a difference of significance arises in the mean response are shown. Because the database of responses is small, even though the level of response is close to 100%, significance has been tested up to the .20 level rather than some lesser number given a larger database. These results are now examined under the seven main categories in the questionnaire.

#### The Market (Research Question 1)

Based on size of firm the smaller firms would seem to be influenced more by economic conditions in terms of their volume of business than the larger firms and would also seem to find clients in the private sector more demanding.

Based on years of experience, those with less experience also tend to find clients in the private sector more demanding than in the public sector and based on affiliation, those affiliated with public accounting firms find competition is stronger in the public than

in the private sector market than do the independents. However, there is generally little disagreement with this statement with 13 out of the 18 respondents either strongly agreeing or in general agreement.

Intuitively these findings seem reasonable for the smaller firm and the less experienced individual to be more impacted by competition than the larger firm or the more experienced head of firm, leaving the remaining five questions under the heading of The Market where no significant differences of opinion about the statements were in evidence except to agree or disagree with the statements as phrased.

#### Strategic Planning (Research Question 2)

The smaller independent firms tend to agree with the statement that growth targets are something to aim for not something which can be planned. The heads of firms with 15 years or less experience also tend to agree with the statement that scope of practice evolves; consultants cannot create a market where none exists. Larger firms, and those affiliated with public accounting firms disagree with the first statement and those with more than 15 years experience also disagree with the notion that consultants cannot create a market. While these differences of opinion about these two statements are significant between the groups being compared, again the difference seems understandable that the smaller firm must necessarily be opportunistic and less certain about future business whereas the larger ones, particularly those aligned with public accounting firms, can fall back on a relatively stable client base as a source of planning new business. Likewise less experienced

consultants would have difficulty visualizing how to 'make a market' tending, by force of circumstance, to have to react to market conditions rather than be proactive as are some of the more experienced in the field.

The remaining five questions in this category show no significant differences in opinion between groups from the point of size, experience or affiliation with a reasonable measure of agreement or disagreement on the whole with the statements made.

#### Business Development

Under this category there is only one statement where there is significant difference of opinion and this difference of opinion only shows up under the heading of Experience. Heads of firms with greater than 15 years experience disagree with the statement that it is rarely possible to create an opportunity where a need does not exist. Those with less experience generally agree. This difference of opinion ties back to the conclusion drawn under the previous heading and is generally consistent with disagreement by more experienced individuals about the possibility of creating a market where none exists.

The remaining seven statements made in the survey show no significant differences of opinion; there is general agreement, or disagreement or ambivalence about these statements.

#### Organization Structure

There would seem to be significant differences of opinion with all statements under this category, except one where there would seem to

be ambivalence without reference to size of firm, experience or affiliation about whether highly centralized control is more effective than widely decentralized management. However, there is a slight tendency toward disagreement with highly centralized control.

The larger firms would tend to agree that professionals do not take kindly to formal hierarchical structure while the smaller firms disagree. This seems consistent with the writer's own experience which tended to indicate increasing management difficulties through organization structure as a firm increases its number of professionals.

There is general agreement that professionals are better grouped organizationally by professional discipline than by industry grouping with the independent firms agreeing much more strongly than firms affiliated with public accounting organizations on this point.

There is general agreement with the statement that professional management consultants are more concerned with keeping their client happy than achieving a firm's organizational objectives but there is a significant difference of opinion on the level of agreement with those with less than or equal to 15 years experience feeling more strongly in agreement than those of greater experience. Also those with less experience generally agree with the statement that professionals measure their own performance by the percentage of their time charged to clients whereas those with more than 15 years experience as heads of firms tend to be neutral or mildly in disagreement with the statement.

There is a marked difference of opinion about the statement that management consultants are more critical of management and management style than their opposite numbers in industry. Consulting firms affiliated with public accounting firms are fairly strongly in agreement with this statement and the independent firms are either neutral or mildly in disagreement. Again, the writer's experience would tend to support this conclusion in the belief that management style in consulting firms associated with public accounting firms tends to be influenced by the predominant accounting profession and is somewhat at variance with the management style appropriate to a multi-disciplinary group of professionals, some of whom might find irksome, a uni-disciplinary style in evidence in public accounting firms.

#### Management of Human Resources

On the statements that turnover of professional staff is critical to the life of a practice and standards of quality for professional work are highly subjective and not measurable there seems to be general agreement with the former and disagreement with the latter. There are differences of significance, however, by reference to the size of the firm. On the subject of turnover the smaller firms tend to agree more strongly than the larger firms and on the subject of standards of quality the larger firms tend to disagree more strongly than the smaller firms. Again, there is a reasonable rationale to these expressions of opinion in that the smaller firm is likely to be more sensitive to turnover than the larger firm since its resources are critical and possibly scarce while the larger firms would likely develop clearer statements about quality and the standards achieved because presumably they have more

experience and have been in existence longer with the whole process being somewhat less subjective than with the smaller firm.

This conclusion on the subject of quality is also supported under the heading of affiliation where there is a greater measure of disagreement with the statement that standards of quality are highly subjective among those firms who are affiliated with public accounting firms. Public accounting firms typically have fairly well developed policies, procedures, and practices which govern quality standards and some part of this discipline one would expect would carry over into the affiliated consulting firm. Also consistent with the conclusion is the difference of opinion showing up about the statement that performance appraisal is a highly subjective activity. The independent firms tend to agree with this statement while the consulting firms affiliated with public accounting firms tend to be almost neutral on the subject. However, there do tend overall to be general measures of agreement about performance appraisal being a subjective activity despite this difference along the affiliation dimension. It seems to the writer that appraising the performance of professionals in a multi-disciplinary consulting environment does not lend itself readily to objective measures of performance.

The remaining statements under this category, either in agreement with the statements notably statements 3 and 5; in disagreement with statement 7 and ambivalent on statement 6 with no significant differences being evident either by size of firm, experience of respondent or affiliation.

Key Success Measures/Controls

Under the heading E - Key Success factors/measures in the questionnaire, there is marked agreement with the last two of the seven statements in this category, marked disagreement with statements 3 and 5 and ambivalence about statements 1 and 4, with no significant differences showing up by reference to size of firm, experience of respondent, or affiliation.

On statement 2 which suggests that the percentage of standard rates realized is important but not critical, there is general agreement with respondents with more than 15 years experience and a slight tendency to disagree by those with less experience. On the same statement there is also general agreement with the statement by those firms who are affiliated with public accounting firms while the independents are in mild disagreement. Again, there would seem to be reasonable logic and consistency about this level of agreement and disagreement with the less experienced individuals being sensitive to rates realized and the consulting firms associated with public accounting firms being less sensitive about rates and more concerned by volume based on their exposure to the same philosophy existing in public accounting organizations.

Under the heading G - Operational/Financial Controls in the questionnaire, on the statement that a certain percentage of available time must be consciously allocated to business development, there is strong to general agreement with a significant difference showing between the smaller firms who strongly agree, with the larger firms generally agreeing. It seems reasonable to expect that the smaller firms would be far more sensitive to the need for ongoing business

development since they are not possibly so widely based from the standpoint of scope of practice and probably not as well known as the larger firms so that they are still having to 'fight for business'.

A fairly reasonable and significant difference in attitude emerges in dealing with the statement that research by and training of professional staff is secondary to meeting client commitments. While there is general agreement through to a neutral position on this statement, the smaller firms tend to agree more strongly as do the heads of firms with what has been said in the previous section about the greater sensitivity of the smaller firms and the individuals with less experience in the field to the need to stay close to client activity and meet client needs on a more immediate basis with less concern about the longer term than is in evidence with the larger firms and the more experienced heads of departments who would tend to be more secure in their position in the market.

There is complete disagreement with the statement that it is not possible to measure the volume of proposal activities and the writer finds this not too surprising. It is a critical measure of the probability of future chargeable activity in a consulting firm but there is significant difference in attitude between consulting firms affiliated with public accounting firms than the independents. The affiliated firms are less in disagreement with the statement and one presumes that this is related to some extent to the captive market of clients who are also audit clients of the firm, and whose needs are less predictable and where proposals tend to be not as necessary as a source of new work.



On the suggestion that there is no generally accepted standard of profitability in a consulting firm one finds opinion ranging from mild agreement through a neutral position to a general disagreement with this statement. The differences of opinion of significance appear with those having less experience in the field being more in disagreement with the statement than those who are experienced and those who are operating as independent firms being more in disagreement than those who are affiliated with public accounting firms. These positions can also be reconciled in that with the independent firm one would suspect that there is a greater sensitivity toward profitability and more conscientious planning of the 'bottom line' because there is no fall back position as there is with consulting firms who are affiliated with public accounting firms. Likewise the more experienced heads of firms are in less disagreement with this statement probably because their longer experience has shown a wider degree of variability in profits over time brought on by changes in the business cycle and other environmental influences which they have found difficult or impossible to influence themselves. Outside of the foregoing statements there would appear to be general agreement with some mild disagreement about statement 1 dealing with the effective management of professional engagements and a general disagreement with statement 4 about the size of work-in-process and receivables and general disagreement with the statement that the percentage of standard rate realized is more important than the percentage of available time to clients. This question tests the consistency of statements 1 and 2 under Key Success Factors/Measures above, and would tend to support conclusions reached under those earlier statements namely, that the percentage of available time charged to clients is more important, on balance, than the percentage of

standard rates realized.

Summary of Findings  
From 'T' Test Analysis

- The Market (Research Question 1)
  - Smaller firms and the larger firms headed by less experienced heads are sensitive to the influence of economic conditions on their volume of business and also perceive that clients in the private sector are more demanding. Firms affiliated with public accounting organizations find competition stronger in the public sector while the larger firms with the more experienced heads of firms tend to be ambivalent in responding to statements as phrased in the questionnaire.
- Strategic Planning (Research Question 2)
  - The smaller non-aligned firms as well as others headed by individuals with 15 years or less experience tend to have a reactive posture to the market believing that there is little they can do to influence that market. They therefore take the short view of market prospects and one can perhaps assume that little if any, longer term planning is undertaken nor initiatives to develop new markets.
- Business Development (Research Question 3)
  - The more experienced heads of firms apparently, regardless of size, do believe that it is possible to develop new business opportunities and create a market not previously in evidence.

- Organization Structure (Research Question 4)

- It would seem that larger firms believe that professionals do not take kindly to formal hierarchical structure and that professionals are better grouped organizationally by professional discipline than by industry grouping. There is general agreement also that professional management consultants are more concerned with keeping clients happy than achieving their firm's organizational objectives. Those heads of firms with less experience generally agree that professionals measure their own performance by the percentage of their time charged to clients. There is a marked difference of opinion about the statement that management consultants are more critical of management than their opposite numbers in industry. Those affiliated with accounting firms are fairly strongly in agreement with the statement while the independent firms are neutral or mildly in disagreement.

- Management of Human Resources (Research Question 5)

- There seems to be general agreement that turnover of professional staff is a critical variable and general disagreement about the standards of quality for professional work as to whether these can be measured objectively. Those affiliated with public accounting firms tend to believe that standards of quality can, to an extent, be objectively appraised while the smaller and independent firms believe that this is a highly subjective activity. There would seem to be general agreement that periodic seminars and other training is

needed for staff morale and a large measure of disagreement with the statement that staff scheduling is a "hit and miss" affair.

- Key Success Measures/Controls (Research Question 6)
  - Less experienced heads of firms would appear to be more sensitive to rates realized than those firms who are associated with public accounting organizations. There would seem to be general agreement by all firms regardless of size, experience or affiliation that the cost of professional staff cannot be treated as variable with volume and that the rate of growth and chargeable hours is an important indicator of performance in the marketplace.

Smaller firms strongly agree and larger firms generally agree that a certain percentage of available time must be consciously allocated to business development.

Smaller firms and heads of firms with less experience are much more concerned with staying close to client activity and meeting client needs than about the training of professional staff over the longer term future of their firm. There would seem to be complete disagreement with the statement that it is not possible to measure the volume of proposal activities but the significance of that measure of future chargeable activities varies depending upon affiliation, with the public accounting consulting firms being less sensitive to this. There would seem to be ambivalence as

to whether there is a generally accepted standard of profitability in a consulting firm with those in the independent firms showing greater sensitivity towards "bottom line" because presumably they have no fall-back position such as consulting firms affiliated with accounting firms. The more experienced heads of firms regardless of affiliation and size tend to show a greater tolerance to variability in profitability, being sensitive to changes in the business cycle and other environmental influences.

#### CONCLUSIONS RELATIVE TO RESEARCH QUESTIONS

##### Research Questions 1, 2, 3, 4, 5, 6

I reviewed the responses to the attitude survey of industry leaders and the relevant research questions listed below and summarize under each of the questions the conclusions drawn from the results of the 'T' test summarized above.

##### Research Question 1

As to the external influences which appear to affect the market for professional services (consulting) the following opinions emerge, translated from the results of the attitude survey:

| <u>Attitude Survey</u> | <u>External Characteristics</u> | <u>Agree</u> | <u>Disagree</u> | <u>No Opinion</u> |
|------------------------|---------------------------------|--------------|-----------------|-------------------|
| A1                     | Economic Conditions             | 33%          | 50%             | 17%               |
| A2                     | Government                      | 50%          | 33%             | 17%               |
| A3                     | Competition<br>(Public Sector)  | 72%          | 17%             | 11%               |
| A4                     | Technological Change            | 61%          | 28%             | 11%               |
| A5                     | Consultant's Own<br>Influence   | 67%          | 28%             | 5%                |
| B7                     | Social Influences               | 56%          | 28%             | 16%               |

From the 'T' test analysis set out earlier in this chapter, smaller firms would seem to be influenced more by economic conditions in terms of their volume of business than the larger firms, and would also seem to find clients in the private sector more demanding. Likewise industry leaders with less experience tend to find clients in the private sector more demanding while consulting firms affiliated with public accounting firms find competition is stronger in the public than in the private sector market. Generally speaking findings about the market suggest that for the smaller firm and the less experienced industry leader competition is more real which seems not unreasonable.

### Research Question 2

In addressing the second research question as to the feasibility and usefulness of strategic planning, industry leaders answer the relevant questions in the attitude survey as follows:

| <u>Attitude Survey</u> | <u>Significance Of Planning (Strategic)</u> | <u>Agree</u> | <u>Disagree</u> | <u>No Opinion</u> |
|------------------------|---|--------------|-----------------|-------------------|
| B1                     | Worthwhile Beyond 18 Month Timeframe        | 78%          | 17%             | 5%                |
| B2                     | Manpower Planning is Primary Activity       | 61%          | 33%             | 6%                |
| B4                     | Growth Cannot Be Planned                    | 50%          | 44%             | 6%                |
| B6                     | Achieving a Planned Objective is Luck       | 6%           | 94%             | 0%                |

From the 'T' test analysis it would seem that industry leaders have a divergence of view on some aspects about how the market evolves. The smaller independent firms and the heads of firms with 15 years or less experience believe that the scope of practice in consulting evolves, cannot be planned and that consultants cannot create a market where none exists. Larger firms and those affiliated with public accounting firms tend to disagree with the notion that consultants cannot create a market. In general terms the response is not inconsistent with the "facts of life" surrounding the respondents. It seems reasonable to the author that the smaller firm and less experienced heads of firms are more likely to be reactive to market conditions leaving it to the larger firms and more experienced practitioners to engage in planning, research and development particularly in the market for services and be proactive in a planning sense and carry the costs of developing new markets.

### Research Question 3

The response of industry leaders about the scope for business development is summarized from the relevant questions in the attitude survey as follows:

| <u>Attitude Survey</u> | <u>Business Development Scope</u>             | <u>Agree</u> | <u>Disagree</u> | <u>No Opinion</u> |
|------------------------|---|--------------|-----------------|-------------------|
| C1                     | New Business is Opportunistic (reactive)      | 28%          | 56%             | 16%               |
| C2                     | Cannot Create Opportunities                   | 72%          | 22%             | 6%                |
| C3                     | Few Professionals Have Aptitude               | 50%          | 44%             | 6%                |
| C4                     | Business With Audit Clients Equally Difficult | 56%          | 17%             | 27%               |
| C6                     | Can Have Too Much Public Sector Work          | 78%          | 11%             | 11%               |
| C7                     | Community Involvement Essential               | 33%          | 29%             | 28%               |
| C8                     | Repeat Business Occurs Frequently             | 89%          | 6%              | 5%                |

In examining the responses of industry leaders in the practitioner's survey under this heading using the 'T' test, there is only one significant difference of opinion on the various statements in the questionnaire under this heading. Heads of firms with greater than 15 years experience disagree with the statement that it is rarely possible to create an opportunity where a need does not exist. Those with less experience generally agree. It is interesting to note however, that in terms of the affiliation of the firms whether with a public accounting firm or independent, the independents are more strongly in agreement with the position that it is rarely possible to create an opportunity where a need does not exist while those affiliated with public accounting firms would seem to be mildly in disagreement.

#### Research Question 4

Industry leaders' response to the question about their views



on organization structure and the implications the following attitudes emerged from the survey:

| <u>Attitude Survey</u> | <u>Organization Structure Views</u>       | <u>Agree</u> | <u>Disagree</u> | <u>No Opinion</u> |
|------------------------|---|--------------|-----------------|-------------------|
| D1                     | Professionals Dislike Hierarchy           | 61%          | 39%             | 0%                |
| D2                     | Professionals Prefer Groups by Discipline | 72%          | 11%             | 17%               |
| D3                     | Highly Centralized Control More Effective | 39%          | 50%             | 11%               |

Turning now to the 'T' results these indicate that the smaller firms tend to agree that professionals do not take kindly to formal hierarchical structure while the larger firms are neutral in this matter. Not too surprisingly and regardless of the experience of the respondents all survey participants tend to agree that a professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives with the smaller firms being more strongly in agreement than the larger firms on this proposition. It is interesting to note that by affiliation, those who are independent are more strongly in agreement with the proposition that professionals are better grouped organizationally by professional discipline than by industry grouping than their opposite numbers with an accounting affiliation although both groups tend to subscribe to the proposition. A statement which has implications for organization and management style is the following -

"management consultants are more critical of management and management style than their opposite numbers in industry".

Those firms affiliated with accounting firms are quite strongly

in agreement with this statement whereas the independents are neutral. This does indeed suggest that professionals operating in a consulting environment which is part of a public accounting environment are somewhat less comfortable in their organizational setting than those in the independent firms where no such potential conflict exists.

#### Research Question 5

Industry leaders seem to have the following attitudes about the critical influences in the management of professionals:

| <u>Attitude Survey</u> | <u>Management of Professionals Critical Influences</u>        | <u>Agree</u> | <u>Disagree</u> | <u>No Opinion</u> |
|------------------------|---|--------------|-----------------|-------------------|
| F1                     | Turnover  | 61%          | 22%             | 17%               |
| F2                     | Performance Appraisal Highly Subjective                       | 67%          | 33%             | 0%                |
| F3                     | Morale Dependent on Client Involvement                        | 94%          | 6%              | 0%                |
| F4                     | Measurement of Quality Highly Subjective                      | 22%          | 67%             | 11%               |
| F5                     | Seminars Needed For Morale                                    | 83%          | 17%             | 0%                |
| F6                     | Organizational Conflict, A Way of Life                        | 33%          | 50%             | 17%               |
| D4                     | Professional More Concerned With Client Than Own Organization | 83%          | 11%             | 6%                |
| D6                     | Professionals More Critical of Management                     | 61%          | 22%             | 17%               |

Industry leaders, regardless of size of firm, as revealed by the 'T' test agree that turnover of professional staff is critical to the life of a practice. The smaller firms, not unnaturally, are more strongly sensitive in this matter. There is general

disagreement with the statement that standards of quality for professional work are highly subjective and not measurable with the larger firms being more strongly in disagreement with this proposition. It is interesting to note also that firms affiliated with accounting firms are more strongly in disagreement than those who are independent. In the matter of performance appraisal of professionals there is agreement that it is a highly subjective activity with the independent firms being more strongly in agreement than those affiliated with public accounting firms. There is very strong agreement regardless of size of firm, experience of leader and affiliation with the statement that the consultant's morale and attitude varies directly with his level of client activity. And the same can be said of the necessity for periodic seminars and extramural conferences needed for staff morale. There is strong negative reaction, again regardless of size, experience or affiliation to the proposition that staff scheduling involves 'fitting square pegs in round holes' to meet the client requirements.

In conclusion, by reference to the responses to both research questions 4 and 5, the conceptual framework in the exhibit II-1 the author of this research comments on II-25 as follows "the structuring of a professional services organization is a complex task in that professionals tend to think independently and their primary concern and interest is practicing their profession by being actively involved as much as possible with clients". The professional's primary concern will always be with his professional objectives and it is a matter of reaching some kind of accommodation with organizational object-

ives. Some balance must be struck and to the extent that it is achieved will influence the effectiveness of the firm in meeting the market". "Structuring professionals in an organization is a complex task, how well it is done influences its posture in addressing the market".

#### Research Question 6

Industry leaders' attitudes on the relative importance of key success measures/controls is contained in their responses to Section E and Section G of the Attitude Survey. These are summarized below:

| <u>Attitude Survey</u> | <u>Significant Measures/<br/>Controls</u>                  | <u>Agree</u> | <u>Disagree</u> | <u>No Opinion</u> |
|------------------------|--|--------------|-----------------|-------------------|
| E1                     | Percent Chargeable Time Is Most Significant Measure        | 39%          | 44%             | 17%               |
| E2                     | Percentage Rate Realized Not Critical                      | 39%          | 44%             | 17%               |
| E3                     | Share of Market is Important                               | 11%          | 72%             | 17%               |
| E5                     | Profitability Cannot Be Planned                            | 6%           | 94%             | 0%                |
| E6                     | Cost of Staff is Relatively Fixed                          | 78%          | 22%             | 0%                |
| E7                     | Rate of Growth is an Important Measure                     | 100%         | 0%              | 0%                |
| G1                     | Management of Engagements is Key Success Factor            | 78%          | 22%             | 0%                |
| G2                     | Percent Development Time is Critical                       | 100%         | 0%              | 0%                |
| G3                     | Client Commitments First; Research Second                  | 39%          | 39%             | 22%               |
| G4                     | Absolute Size of Work in Process and Receivables Important | 11%          | 83%             | 6%                |

| <u>Attitude Survey</u> | <u>Significant Measures/<br/>Controls</u>                            | <u>Agree</u> | <u>Disagree</u> | <u>No<br/>Opinion</u> |
|------------------------|--|--------------|-----------------|-----------------------|
| G6                     | There is no Standard of Profitability                                | 33%          | 56%             | 11%                   |
| G7                     | Percent Rate Realized is More Important Than Percent Chargeable Time | 6%           | 61%             | 33%                   |

Industry leaders using the 'T' test analysis show marked agreement with the statements that "the cost of professional staff cannot be easily changed as volume of business changes, that rate of growth and chargeable hours is an important indicator of performance". Contrarywise there is marked disagreement with the statements that "share of market exerts a strong influence on planning in a firm and that profitability of a consulting practice is something that happens and cannot be planned". On the statement that the percentage of standard rates realized is important but not critical the 'T' test analysis suggests general agreement by respondents with more than 15 years experience and slight tendency to disagree by those with less experience. On the same statement there is general agreement by those firms who are affiliated with public accounting firms while the independents are in mild disagreement. There would appear to be reasonable logic and consistency about this level of agreement and disagreement with the less experienced individuals being sensitive to rates realized and the consulting firms associated with public accounting firms being less sensitive about rates and more concerned about volume, based on their exposure to the same philosophy existing in public accounting organizations. Surprisingly there is ambivalence on the statement that the success rate in developing new business is

closely monitored. I am at a loss to understand why this should be so and there is no clue offered in the 'T' test analysis exploring the three dimensions of size, experience and affiliation. It does seem to the author that measuring the success or otherwise on a continuing basis of business development effort would be at the root of a firm's performance.

Industry leaders through the attitude survey are all in agreement that a certain percentage of available time must be consciously allocated to business development with the smaller firms more strongly in agreement than the larger firms. There would appear to be a large measure of agreement with the statement that effective management of professional engagements above all else, is the key to success and there are no significant differences by size of firm, experience of respondent or affiliation of the firm. A fairly reasonable and significant difference in attitude emerges in dealing with the statement that research by and training of professional staff is secondary to meeting client commitments. There is general agreement through to a neutral position on this statement with the smaller firms and those with heads of firms of 15 years of experience or less more strongly agreeing than the other groupings. There is complete disagreement with the statements that it is not possible to measure the volume of proposal activities but it is not too surprising since in the author's view it is a critical measure of the probability of future chargeable activity. About the suggestion that there is no generally accepted standard of profitability in a consulting firm one finds opinion ranging from mild through a neutral position to general disagreement with this statement.

The differences of opinion of significance appear with those having less experience in the field being more violently in disagreement with the statement than those with experience and those who are operating an independent firm being more in disagreement than those who are affiliated with public accounting firms. There would appear to be general disagreement with statement G4 - size of work in process and receivables and general disagreement also to the statement that the percentage of standard rate realized is more important than percentage of available time to clients. This question in effect tested the consistency of statements E1 and E2.

#### FACTOR ANALYSIS TO IDENTIFY COMMON DIMENSIONS

As an extension of the analysis of industry leaders' attitudes using the 'T' test technique, the author felt it might be useful to explore attitudes which might be held in common by different groups of practitioners across the areas covered by the six research questions.

Through the use of the 'T' test technique I have endeavoured to identify differences of significance along three dimensions; size of firm, experience of respondent, and affiliation; leaving for subsequent analysis those statements in the questionnaire where there seemed to be agreement, disagreement, or ambivalence regardless of the foregoing three dimensions. The 'T' test has been to identify differences of opinion while at the same time isolating agreement or disagreement with the statements in the attitude survey. In the factor analysis I have pooled all 50 statements and the attitudes thereon, to look for common dimensions. The factor analysis therefore is the test for measures of agreement across the whole

spectrum of statements to determine if there are groups of practitioners sharing common beliefs. With computer assistance using appropriate techniques and taking into account intercorrelations the technique exposed 13 possible common dimensions out of the 50 statements. Having examined the 13 common dimensions through an iterative process the writer examined 12 dimensions, 10 dimensions and subsequently 8 dimensions where exploration because of greater intercorrelation, might prove useful. Having settled on 8 factors as probably the most fruitful number of common dimensions to examine, the computer was then used to rotate the axes of the factor matrix in order to achieve a better interpretation. This provided the final 8 factor structure which seemed to offer the maximum intercorrelation of the items included under each factor. I then interpreted the data looking for correlations in excess of .50 positive and negative against each of the 50 questions appearing under each of the 8 factors. The net effect of using this approach would, I felt, produce the 'clusters' of attitudes held in common along 8 dimensions which would hopefully lend themselves to interpretation of common beliefs held by groups of senior practitioners with some degree of inter-relationship between statements in evidence, dimension by dimension. A summary of the factor analysis is set out at the end of this report and marked Appendix D.

Exploring the first set of attitudes, 'clusters' of opinion or shared beliefs, I examined first the statements under factor 1 in Appendix D. to this report. These opinions are centered in four of the seven categories of the questionnaire; market, strategic planning, organization structure, and key success measures/controls. Within the limitations of the data this set of attitudes appears to be inward



looking and focused strongly on concern about professional staff. This is evidenced in the comment about work in the public sector is less satisfying professionally, the comments about only being able to plan within a 18 month timeframe and that planning relates largely to what skills to recruit and beyond this that such planning to enter a market segment may in the final analysis be achieved as a matter of luck. Further than this, looking to the organization structure this body of opinion notes that the consultant is more concerned with keeping a client happy than achieving the firm's organizational objectives and that this client orientation is reinforced as each professional measures his performance on the basis of time spent with clients. Finally, a measure of success is the time charged to clients and that share of market does not exert a strong influence on planning.

One might therefore, with considerable caution based on the limitations of the data, suggest that among the respondents there is a body of opinion which is strongly professionally oriented, believes that the individual firm is at the mercy of the market, and that the performance of the individual professional within the firm is the ultimate determinant of success.

The second clustering of opinion under factor 2 covers six of the seven categories in the questionnaire and would seem to be focused more towards a bureaucratic approach in the operation of a practice with less concern for attitudes and influences both external and internal and with a more directive than democratic style management. This body of opinion suggests that economic conditions primarily influence the volume of consulting work with technological change

exerting only a minor influence. Growth is planned, few professionals have an aptitude for business development, lead time is in excess of three months in developing work, that a consulting firm does not need to be sensitive about the volume of its public sector business nor community involvement. This set of attitudes also favours highly centralized control, believes that professional staff can be turned over as the volume of business changes and that professional work from the standpoint of quality can be measured against standards.

The next set of attitudes focuses on four of the seven categories; market, organization structure, management of human resources, and operational/financial control. This is factor three in Appendix D. This body of opinion would seem to be strongly market oriented, possibly with a quick response time since there is an absence of correlation with the areas of strategic planning, new business development, or key success factors. There is a belief that changes in government do affect the consulting market but that consultants can strongly influence the size and scope of the market and can control business development time. This body of opinion also notes that professionals do not take kindly to formal structure and are better grouped by professional discipline. Consistent with the marketing orientation however, there is agreement that staff scheduling does involve 'fitting square pegs in round holes' to meet client requirements and again with the marketing orientation one measures proposal activity.

Turning now to factor four one senses the beliefs and value system of the smaller independent consulting firm reflected in the attitudes

in this dimension. In the market no distinction is made in the competition in either the public or private sectors. There is strong agreement with the statement that scope of practice evolves; consultants cannot create a market where none exists. Consistent with this is an agreement with the statement that it is rarely possible to create an opportunity where a need does not exist and that the percentage of standard rates realized is very important suggesting a sensitivity to price in the market. Additionally, those involved in this dimension believe that turnover of professional staff is critical to the life of the practice and that consultant's morale and attitudes vary directly with his level of client activity; the busier the better.

The fifth dimension summarized in Appendix D under factor 5 indicates little or no sensitivity to new business development or organization structure but a strong commitment to clients beyond which 'events will unfold as they will'. There is agreement that economic conditions are the primary influences on the volume of consulting work; that continued growth is not essential to survival nor is the entry into a market segment which has been planned a matter of luck in its achievement. The percentage of available time charged to clients is the most significant measure of success, that a certain percentage of available time must be consciously allocated to business development, and that planning to enter a market segment is one thing, it is a matter of luck if this is achieved. Staff scheduling is not a matter of fitting inappropriate resources to meet client requirements but research by and training of professional staff is secondary to meeting client commitments. Consistent with the earlier statement about business development it is agreed that a certain percentage of avail-

able time must be consciously allocated to business development. Performance appraisal of professional staff is however, a highly subjective activity.

The sixth dimension, in Appendix D, has a strong human resources orientation with no reference either to market or new business development or the key success factors. The body of thought embraced by this dimension subscribes to the thought that performance appraisal can be handled by objective criteria, that organizational conflict/challenge between professionals is a way of life in a consulting firm and that periodic seminars and extramural conferences are needed for staff morale. Consistent with this is agreement that management consultants are more critical of management and management style than their opposite numbers in industry and that the percentage of available time charged to clients is more important than the percentage of standard rate realized for their efforts. It is felt by this group also that planning to enter a market segment and achieving it is not a matter of luck but good management. Along this dimension the common theme would seem to be a fairly pronounced recognition of the importance and the role of the professional in the planning and management of a professional services firm.

Factor 7 does not indicate any strong correlation in the areas of strategic planning, organization structure, or operational/financial controls data. Rather, one sees evidence of a fairly controlled, autocratic situation in a public accounting environment within the limits of the data. Noteworthy, in the attitudes of individuals of this group are that clients are just as demanding in the private sector as the public sector, that developing new business with audit

clients is just as difficult as with non-audit clients and that new business is opportunistic; reactive rather than proactive. This body of opinion also believes that professional staff can be adjusted in terms of its cost with changes in volume and that standards of quality for professional work are not highly subjective but presumably can be set objectively and measured.

The final dimension, factor eight, in Appendix D, has no common ground or correlation in the three areas of marketing, strategic planning, or organization structure. There seems to be agreement with the proposition that repeat business (with one client) occurs frequently, that the success rate in developing new business is closely monitored and that profitability of a consulting practice is something that can be planned. That consultants morale and attitudes vary directly with their level of client activity and that the effective management of professional engagements above all else is the key to success. This collection of attitudes suggests the well established fairly large consulting firm aligned with the public accounting firm whose reputation is established, whose scope of practice is broad enough not to be unduly concerned about market or strategic planning and that it is mature enough not to have any undue concerns about its organization structure and functioning.

#### Summary of Findings

Sets of attitudes, 'clusters' of opinion or shared beliefs among practitioners is summarized as follows:

- Factor 1

Those sharing these beliefs would appear to be inward looking and focus strongly on concern about professional staff. They would appear to be strongly professionally

oriented and believe that the individual firm is at the mercy of the market and that the performance of the individual professional is the ultimate determinant of success.

- Factor 2

Under this clustering of attitudes would seem to be those who have a bureaucratic approach to the operation of a practice and less concern for attitudes and influences both external and internal. They believe strongly that growth is planned and few professionals have an aptitude for business development. As the volume of business changes, subject to economic conditions, professional staff is turned over, and professional work can be measured against objective standards.

- Factor 3

This body of opinion would seem to be strongly market oriented with a quick response time and a belief that consultants can strongly influence the size and scope of the market. They believe that changes in government do affect the consulting market, and in the matter of organization structure that professionals do not take kindly to formal structure and are better grouped by professional discipline.

- Factor 4

One senses that the body of opinion represented by this factor is that of the smaller independent consulting firms.

No distinction is made in the competition in either the private or public sectors. There is strong agreement that scope of practice evolves and that a market cannot be created. Turnover of professional staff is also viewed as critical to the life of the practice.

- Factor 5

This factor represents a body of opinion indicating little or no sensitivity to business development or organization structure but agreement that economic conditions are the primary influence on the volume of consulting work.

However, growth is not essential to survival nor is entry into new market segments. The percentage of available time charged to clients is the most significant measure of success and the training of professional staff is secondary to meeting client commitments. This general body of opinion reflected by this factor suggests the stable mature practice with an established clientele and possibly a public accounting affiliation since an air of complacency about critical elements seems evident in their view of the market and professional activity therein.

- Factor 6

There is a strong human resources orientation in this cluster of opinion with no reference either to market or business development or key success factors.

There would appear to be some agreement that management consultants are more critical of management and management

style than their opposite numbers in industry and that the percentage of available time charged to clients is more important than realized rate. There appears to be a recognition in this body of opinion of the importance of the individual professional and it is possible that these attitudes reflect the fairly loosely structured firm of individual professionals each in practice with his own stable of clients.

- Factor 7

Opinions expressed in this grouping suggest the tightly controlled autocratically governed public accounting environment. There is no sensitivity between audit clients and non-audit clients in terms of difficulty in obtaining new business. There is a feeling that professional staff can be adjusted to fit changes in volume and that quality of professional work can be objectively measured.

- Factor 8

This set of attitudes suggests a fairly well established large consulting firm aligned with a public accounting firm whose scope of practice is broad enough not to be unduly concerned about market or strategic planning. There would appear to be no undue concerns about organization structure and repeat business occurs frequently. The success rate in developing new business is closely monitored and the profitability of the practice is variable.



The implication of the foregoing are that a fairly broad spectrum of attitudes and opinion exists across the three dimensions explored; size, experience of respondent, and affiliation and that varying emphasis is placed on the underlying factors influencing the practice of consulting; the market, strategic planning, business development, organization structure, management of human resources, and key success measures/controls. Under some of the eight factors it is possible to postulate the type of consulting firm representing the body of opinion namely, for example, the small independent firm from the large well established firm affiliated with a public accounting organization. One can also detect one or two other "stereo types" e.g. large independent firm with less experienced management and the smaller consulting firm aligned with a public accounting firm with more experienced management. Implications for doing business in this market are the recognition that there possibly are five or six fairly distinctive groups of beliefs, attitudes and opinions whose reaction to environmental and internal influences must be considered in the course of practicing in the consulting profession.

In the paragraphs which follow I have endeavoured to refine the analysis by developing factors to distinguish consulting firms who are aligned with public accounting firms in the hope that additional insights will flow therefrom.

#### FACTOR ANALYSIS OF CONSULTING FIRMS WHO ARE ALIGNED WITH PUBLIC ACCOUNTING FIRMS

In order to refine the foregoing analysis, an attempt was made to develop a set of inter-correlations within consulting firms aligned with public accounting firms and with independent consulting firms.

Unfortunately, with the latter category, the data base proved to be too small to achieve any meaningful results since there are only seven independent consulting firms in the group of 18 respondents. The 11 consulting firms who are aligned however, produce some interesting information, details of which are set out in Appendix E. to this report. In the summary at the end of this section I suggest, with caution, what additional insights might be derived from a comparison of the two approaches to the factor analysis.

Not wishing to labour the analysis but drawing conclusions based on the attitudes under the eight factors or dimensions set out in Appendix E, the following conclusions are drawn without placing too much emphasis on the conclusions having in mind the limitations of the data base.

- Factor 1

Individuals operating along this dimension have a strong belief in highly centralized control; believe that the percentage of available time charged to clients is the most significant measure of success and follow this up by stating that the cost of professional staff can be adjusted as the volume of business changes. They are strong believers that the consultant's morale and attitude varies directly with the level of client activity and do not feel that organizational conflict/challenge between professionals is a way of life in a consulting firm. More than this they subscribe to the belief that effective management of professional engagements is the key to success and presumably

this results in their belief that repeat business occurs frequently. They also feel that developing new business is opportunistic rather than proactive and that the lead time between initial contact and confirmed contract is more than three months. In summary, there is evidence along this dimension of emphasis on planning and control of business and staff and generally a tightly run operation by those who have responded in this manner.

- Factor 2

Individuals responding along this dimension are sensitive to the achievement of the percentage rate realized and less concerned about the rate of growth in chargeable hours as an indicator of performance. Organizationally they feel that the professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives, and do not believe that continued growth is essential to survival nor that changes in societal attitudes have an effect on a consulting practice. They feel moreover that work in the public sector is satisfying professionally. The foregoing attitudes reflect a practice aligned with a public accounting firm which is somewhat smaller and operates more as a department than as a separate division which deals exclusively with consulting. There is no reference to new business development nor to the management of human resources as significant aspects of practice and the preoccupation with rate per hour as distinct from building chargeable hours on client work would seem to confirm the type of organization which these attitudes reflect.

- Factor 3

Attitudes along this dimension deal with only three categories of the seven categories in the questionnaire: market, management of human resources and operational/financial control. There is no correlation in evidence along the dimensions dealing with strategic planning, new business development, organization structure or key success factors. There is a recognition that economic conditions are the primary influences on the volume of consulting work but an argument that competition is no stronger in the public than in the private sector market. In the area of human resources there is agreement that turnover of professional staff is critical, that performance appraisal is a highly subjective matter and that periodic seminars and extra-mural conferences are needed for staff morale. There is strong disagreement that staff scheduling involves 'fitting square pegs in round holes' to meet client requirements. Finally, there is strong agreement that a certain percentage of available time must be consciously allocated to business development, that research by and training of professional staff is secondary to meeting existing client commitments.

More than this, it is not possible to measure the volume of proposal activities. From the writer's experience, he would conjecture that these attitudes reflect a very small consulting practice aligned to a public accounting firm and scarcely even a department of the public accounting firm but rather a group of professionals who are part

of 'organizational slack' who devote part of their time to consulting activities and are really not committed to nor are part of a formally organized consulting practice.

- Factor 4

Along this dimension is correlation in only two areas; strategic planning and key success factors with quite low levels of correlation in the other five categories of the questionnaire. There is agreement that a consulting firm's planning relates largely to manpower - what skills to recruit; that growth targets are something to aim for, not something which can be planned and that planning to enter a market segment is one thing; achieving it is a matter of luck. There appears to be no sensitivity to changes in societal attitudes insofar as these might impact on a consulting practice. There is disagreement that share of market exerts a strong influence on the planning of a firm and the agreement that the success rate in developing new business is closely monitored. There is also agreement however, that the profitability in a consulting practice is something that happens and cannot be planned. This dimension also suggests the small practice although the attitude toward planning shows a consciousness of the need without a conviction about its value. This would seem to be confirmed in the suggestion that profitability of a practice happens rather than is planned. I suspect that this is a somewhat neutral position. Again, this probably reflects the attitude of

a small consulting department of a public accounting firm which is just emerging to the status of a self standing practice.

- Factor 5

As distinct from the type of practice suggested under the previous two dimensions, under this factor one notes the belief that management consultants strongly influence the size and scope of their market, clients are no more demanding in the private sector than in the public sector and that time spent on business development is controlled. One then notes that those subscribing to this dimension believe that developing new business is opportunistic and that developing new business with audit clients is just as difficult as with non-audit clients. They note that professionals do not take kindly to formal structure and are better grouped organizationally by professional discipline. With changes involving volume of business these individuals also believe that the cost of professional staff can be changed easily and yet they believe also that there is no generally accepted standard of profitability in a consulting firm. One senses the attitude under this factor as reflecting the fairly well established broadly based consulting practice which is fairly tightly controlled, but the experience its chief executives suggests they are conscious of the limits of their influence and that of their organization on profits.

- Factor 6

Individuals along this dimension would seem to belong to a professionally oriented or people oriented organization which is fairly strong in the market. They would seem to agree that changes in government have no appreciable affect on the consulting market and that a consulting firm's planning relates largely to manpower - what skills to recruit and more than this that planning to enter a market segment is one thing; achieving it is a matter of luck. Individuals along this dimension generally believe that community involvement is essential to new business development, that professionals operating in this environment measure their own performance by the percentage of their time charged to clients. There would seem to be some insensitivity to profitability in that the size of work-in-process and receivables is regarded as a measure of success; the bigger, the better. The size of the investment not being translated into profit indicates that or suggests possibly that individuals reflecting this set of attitudes are with large well established firms with a strong professional orientation and less commercial instinct.

- Factor 7

There would seem to be no control or management orientation in the attitudes displayed by those along this dimension. There is no correlation in evidence related to market conditions and in the area of strategic planning individuals believe that a scope of practice evolves; consultants cannot create a market where none exists. This is confirmed in the attitude related to new business where it

is agreed that it is rarely possible to create an opportunity where a need does not exist. And again, in the organizational form it is also conceded that a professional management consultant is more concerned with keeping the client happy than with achieving his firm's organizational objectives. There is however, agreement that the percentage of standard rates realized is not as important nor critical as percentage of available time charged to clients and that turnover of professional staff is important and that standards of quality can be set objectively for professional work and moreover that organizational conflict/challenge to a professional is a way of life in a consulting firm.

The foregoing attitudes as indicated in the opening sentence suggests a grouping of professionals who are not managed or controlled in a traditional manner with a hierarchical structure but rather who pursue their own professional practices under some loose kind of arrangement, that is somewhat democratic in its approach to policymaking, and where there is a recognition that certain controls and profitability are necessary to success.

- Factor 8

This is a very limited dimension with correlations occurring in only three of the categories in the questionnaire; market, strategic planning, and new business development. The market attitude suggests that technological change exerts more than a minor influence on the scope of practice



in consulting but that it is not possible to plan beyond an 18 month timeframe for a consulting practice. In business development there is strong disagreement that few professionals have an aptitude for business development and some agreement that a consulting firm can have too much public sector business as against the private sector. The foregoing attitude suggests a smaller somewhat technically oriented specialist type consulting practice, influenced in its planning by the speed of technological change and by force of circumstances having to use many of its professionals in a business development role. It is evident also that there is sensitivity to balance between public and private sector work in the attitudes displayed along this dimension.

### Summary of Findings

As stated at the beginning of this section, the factor analysis of consulting firms aligned with public accounting firms was undertaken with two objectives in mind: firstly, to isolate, if possible, 'clusters' of opinion existing in such firms such as to indicate the type of firm and secondly, to gain additional insights, if possible, into differences in attitude between independent consulting firms from those aligned with public accounting firms. A summary of the impressions gained from the second factor analysis is set out below.

#### ● Factor 1

This set of attitudes points to the small to medium size consulting practice closely aligned to its audit practice with emphasis on planning and tight control and the reactive rather than proactive approach to the market.

- Factor 2

The attitudes reflected along this dimension suggests the smaller grouping of professionals which functions more as a department of a public accounting firm than the larger more mature consulting practice. It conceivably has a fairly narrow scope of practice and there is a preoccupation with rates achieved as distinct from growth in chargeable hours.

- Factor 3

Opinions emerging from this factor tend to point to a small grouping of professionals who are part of 'organizational slack' in a public accounting firm spending part of their time on consulting activities with the other part spent on auditing. There is a belief that economic conditions are the primary influences on the volume of consulting work and apparently no concern with strategic planning, business development, organization structure or key success factors. There is a belief also that research by and training of professional staff is secondary to meeting existing client commitments.

- Factor 4

This dimension also suggests the small practice although one which is distinct from the audit practice in that there is a consciousness of the need to plan and interest in key success factors as a measure of success. There would seem to be a belief also that the profitability of a practice happens rather than is planned and that the planning

relates largely to manpower - what skills to recruit.  
The foregoing suggests the firm which is just emerging to the status of a self-standing practice.

- Factor 5

The 'cluster' of opinion under this factor suggests a fairly well established broadly based consulting practice which is fairly tightly controlled, with the heads of firms of sufficient experience to recognize the limits of their influence over profitability. There is a belief that professional staff can be changed easily with changing volume of business and a belief also that the consultants can strongly influence the size and scope of their market with clients no more demanding in the private sector than in the public sector.

- Factor 6

This dimension in terms of the opinions expressed also would seem to indicate the large well established firm but having a strong professional orientation and somewhat less commercial instinct. Individuals believe that community involvement is essential to business development and that professionals operating in this environment measure their own performance by the percentage of their time charged to clients. There would appear to be a strong people orientation and a suggestion that planning relates largely to manpower - what skills to recruit.

- Factor 7

The body of opinion under this factor suggests a grouping of professionals who are not managed or controlled in a traditional manner with a hierarchical structure but rather pursue their own professional practices under some loose kind of arrangement. I draw this conclusion as with others under the preceding factors with considerable caution but I note that there is a reactive posture to the market, a belief that the management consultant is more concerned with keeping a client happy than with his firm's organizational objectives and that organization conflict/challenge to a professional is a way of life in a consulting firm.

- Factor 8

Opinions expressed under this factor where correlation exists suggest a smaller somewhat technically oriented specialist type consulting firm, its planning influenced by the speed of technological change and having to use many of its professionals in a business development role. This body of opinion also believes it is not possible to plan beyond an 18 month timeframe.

The foregoing summary of opinions under the eight factors suggests, as perhaps it should, a spectrum of possibly five types of consulting practice associated with public accounting firms. These would seem to range from groupings of professionals in a public accounting firm who are part of 'organizational slack' undertaking consulting work on a part-time basis through to a department of a public accounting firm which specializes in consulting work onto a small but established

firm which specializes in consulting work on to a small but established consulting practice which is operated as a business but with a narrow scope of practice, on to the technically oriented specialist type of practice and finally to the larger broader based practice multi-disciplinary in nature, very much a separate business with a commitment to planning and an understanding of the significance of key success measures/controls. One might possibly have expected a greater degree of uniformity in attitude and opinion across this spectrum of consulting firms aligned with public accounting firms in light of the fact that they are aligned with public accounting firms. One thinks of the public accounting profession in all of the situations examined as the dominant part of the overall organization. One has an image of the single discipline, public accounting, as being a force reflected in the attitudes of the professionals involved, which would somehow carry over to the professionals in the consulting practice toward common beliefs about most of the six operational characteristics (the market, strategic planning, business development, etc.) examined through the questionnaire. There is no evidence that the author can detect to suggest that the set of multi-disciplinary norms carries over into consulting activity except possibly during the early stages of the emergence of a consulting business by way of 'organization slack' or with a small emergent practice as a department of the public accounting firm. Again, however, the author arrives at these conclusions with considerable caution, having in mind the limitations of the data with which he has had to work. However, because of the author's long involvement in this field, and having experienced several transitional phases in the life of the case study firm, referred to in Chapter VIII, he is not unduly surprised and as a participant in the case study firm can recognize some of the

groupings of opinion as phases in the development of a consulting practice.

As indicated at the beginning of this Chapter, it was not possible, because of the small database to carry out factor analysis on the independent firms to search for insights into differences in attitudes between such firms and those aligned with public accounting firms. However, because the foregoing conclusions reached about the diversity of group opinions in the public accounting oriented consulting practices, and noting that this diversity is consistent with the diversity in evidence in the first factor analysis of the 18 member firms of CAMC, the author somewhat hesitantly, suggests that there may be very little difference between the two groups but that it might well be a subject for further indepth research possibly using a larger database.

In conclusion, while the factor analysis does not directly address each of the research questions separately, the author believes that it adds a new and interesting dimension to the research which might justify further exploration by himself or others using a larger database. The results of the analysis do suggest quite strongly that, even among 18 respondents, there are sub-groupings of those respondents having attitudes in common about two or three or even more of the research areas or at least some of the statements appearing in those areas in the attitude survey. This does provide the author with a measure of comfort about the degree of reliance to be placed on the responses. At the same time it does indicate that there is another dimension, however described, other than size of firm, experience of practitioner, and affili-

ation, which could be explored but which is beyond the scope of the present research.

PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONS (CONT'D)VII - CLIENTS' ATTITUDES AND OPINIONSINTRODUCTION

Appendix F to this report is a copy of a letter addressed to six frequent users of outside professional services including management consultants. There are seven questions contained in the letter drawn from the writer's experience which address a number of the most sensitive issues encountered in a professional/client relationship. The sample of six users of professional services, whose names and affiliation are kept in confidence represents a cross-section of private and public sectors and consists of the following:

- Respondent 1: Senior Civil Servant at the Federal level.
- Respondent 2: Formerly Chief Executive of a large management consulting practice and latterly the Senior Civil Servant in a department of the Federal government.
- Respondent 3: President of a large conglomerate with public and private ownership interests having interests in natural resources, energy, manufacturing, and advanced technology.



- Respondent 4: Executive Vice President of one of the larger multinational U.S. corporations involved in chemical and manufacturing activities in 15 countries including Canada.
  
- Respondent 5: President of a large North American steel company.
  
- Respondent 6: Chairman of an aircraft manufacturing company and part-time chairman of a public sector development agency and Director of a number of other corporations.

The writer has had previous professional/client relationships with all six respondents which facilitated indepth interviews calling for very frank expressions of opinion from all respondents with interviews lasting from one to two and a half hours each. The questions raised in Appendix F were phrased in a non-directive style and the interviews were conducted in a non-directive manner. Such was the familiarity of the respondents with the use of outside professional services that very little prompting was necessary to encourage them to express opinions about the questions. More than this, the writer found that there was surprising unanimity in the views expressed by the respondents regardless of their affiliations. Wherever exceptions occurred, or particularly inciteful comments made, these are noted in the commentary which follows.

As suggested in Chapter III under the heading of Development of Research Questions, the choice and phrasing of the questions appearing

in Appendix F was designed to provide insights both directly and indirectly on the market's perception of management consulting services. Accordingly, the first three research questions under the heading External Influences and related respectively to the market, strategic planning, and business development are the most relevant to this area of research. As far as internal influences related specifically to the firm are concerned, one would not expect clients to be particularly sensitive or knowledgeable about such issues. However, in the seven topics dealt with in the interview process with clients, these are so phrased that the author hoped for comments from the respondents which would at least bear indirectly on the second three research questions related respectively to organization structure, management of professionals, and key success measures/controls.

The results of the interview process are set out below.

#### RESPONSES TO INTERVIEW QUESTIONS

##### Question 1

When do you consider using the services of management consultants, what kind of problems and under what circumstances?

- Fill a gap in skills and resources;
- Short-term jobs where it is uneconomic to have permanent staff;
- Specific research and advice for specialized input;
- To provide advice which is independent and objective;

- To provide a new perspective, to suggest innovative ideas and approaches;
- As office overload;
- To provide second opinions in a specialized industry for acquisition purposes;
- To review strategies and strategic planning activities;
- On a specific project where a client is seeking answers to questions where he does not have answers;
- To provide indepth knowledge about an industry with which a client is not familiar;
- In an advisory capacity on research and development activity;
- On a retainer basis in specialized fields where comparative analysis is needed;
- Where the client has a key decision to make with a greater than average element of risk and he wishes to buy insurance or comfort in the form of a second and outside independent opinion;
- Where the resources of the client are adequate to handle the project but time is scarce and needed for other priorities.

Question 2

In engaging a firm of management consultants what selection criteria do you use?

- Previous experience with the consulting firm;
- Match of expertise of individuals to be assigned to the assignment, against the demands which the assignment will make;
- More concerned with individuals to be assigned than with the reputation of the firm;
- Well known reputable firm more likely to protect its reputation by assigning appropriate staff;
- Use Canadian resources but competence will override this consideration;
- Draw on contacts with the business community at large to identify consultants with appropriate reputation and expertise;
- Contact associations and institutes to identify other users of consultants who might make recommendations;
- Develop short-list of three or four professionals or professional firms and ask them to define their approach to the problem and make a judgment;

- Insist on a personal interview with the firm's representative to determine the "shape of the man", his style and approach and whether the consulting representative has the necessary "chemistry" to work with client staff and is able to be direct in his dealing with both the staff and the problem;
- Try to check the experience of other users of two or three consulting firms dealing with similar problems.

### Question 3

During the course of a consulting engagement, what kind of progress reporting do you look for?

- Regular and in writing and as frequently as weekly, depending on the nature of the assignment;
- Expects early warning advice of problems which might emerge as the assignment proceeds;
- Communication on a one-on-one basis;
- Interim reporting appropriate to the length of the assignment and the nature of the assignment objectives and in accordance with agreed upon terms of reference;
- At logical stages or at key steps during the course of a project;

- Progressive reporting at proper intervals with emphasis more on oral than on written interim reporting;
- A final written report preceded by a presentation;
- All reporting should always be followed up by a written record;
- Hard information as opposed to verbiage.

#### Question 4

How do you judge the appropriateness of the fees charged?

- Knowledge of the general rate structure charged by consultants or other professionals related to the calibre or experience and qualifications of different levels of professionals. Price sensitive only to a point, believing that the approach to the assignment, the grasp of its objectives, and the quality of the individuals to be assigned outweigh considerations of rate and total fee;
- Prefer to pay high rates per diem for high skills than low rates for an army of people;
- Suspicious of professionals who might be still on the learning curve at the client's expense;
- Select six firms for personal interview and ask three firms to submit proposals and then look for depth and

intuitive understanding of the objectives of the engagement and its scope and make a judgment about the trade-off between fees and experience and understanding;

- Typically looking for competence first and price very much second but use the tender approach selecting from three firms;
- A fee quotation in a proposal must be firm; overruns in the matter of fees should not be accepted unless engagement conditions have been patently beyond the control of the consultant;
- Ask the question "how badly do we need the help and how little do we know about the situation"; this will be the measure of price sensitivity;
- Prepared to pay for the best expertise;
- It is a judgment call and largely a matter of trust since the fees usually represent a small portion of the ultimate cost of consequences flowing out of consulting assignments;
- Start with a budget estimate from the consulting firm and monitor time and cost against the original quotation.

Question 5

How do you assess the success or otherwise of a consulting engagement?

- Has the job been done and does the consultant hold himself accountable for the end result;
- How well does the analysis relate to conclusions and are the intervening assumptions valid;
- Has the consultant challenged preconceptions and been truly objective and independent;
- The measure of success is related to the quality of the output and the objectivity displayed and advice given or recommendations made;
- A written report is the "acid test" displaying an understanding of the problems, an analysis appropriate to an orderly mind, and effective communication;
- Consultants tend to be overly optimistic and underestimate difficulties and one should be alert to loss of objectivity in this regard;
- The responsibility of consultants stressing important issues and pointing out hurdles both in the handling of the assignment and in the consideration of recommendations;



- Have all questions in the original terms of reference been appropriately answered;
- Have the consultants left the client feeling uneasy about the results being presented;
- Has there been sufficient depth of understanding of the environment surrounding the assignment such as to give the client confidence;
- Have the 'right' questions been asked mindful of the risk involved in the nature of the engagement;
- Are the results of the assignment sufficiently clear and well enough communicated such as to prompt action;
- Does the client have a feeling of confidence in the work and recommendations;
- The end result should be action oriented and not just information for file.

#### Question 6

What is your opinion, generally, of management consultants and the role they play in today's business and government activities?

- All professionals represent a pool of expertise available on demand to clients;

- Professionals represent a more efficient allocation of scarce resources to handle specialized assignments, overload work, or provide technical expertise;
- Firms of professionals are a vehicle for training emerging professionals, the cost of which would be prohibitive for clients;
- Management consultants in common with other professionals are a necessary tool or resource required by both business and government;
- The market is the appropriate arena in which the success or otherwise of such services are determined. There is a misuse of consultants by government who, because of restrictive hiring practices, look to consultants to provide overload assistance;
- There is a tendency apparent in the demeanor of most professionals and particularly management consultants indicating a consuming interest in self-perpetuation of professional work once involved with a client;
- Consultants and to some lesser extent most professionals are inclined to be too rigid and not inclined to present a candid approach to the solution of client problems;
- There is a tendency to present conclusions to an assignment in such a way that a follow-on project is indicated;

- Inexperienced people are sometimes presented as experts;
- Consultants are apt to be overused and their role needs careful definition before an engagement is considered.

#### Question 7

What advice would you give to management consulting firms to improve the quality of their performance, their image, and other aspects of their practice?

- To management consultants, start thinking increasingly about acting as professionals as distinct from providing overload services to business and government;
- Be more forthright, frank, honest and objective in reporting to clients and with independence;
- Insufficiently frank and challenging to clients;
- More concern with revenue than with effectiveness;
- Consulting organizations aligned with public accounting firms are perhaps rather more comfortable and complacent than they should be because of the protection derived from being part of a public accounting firm;
- Public accounting firms should re-examine their auditing role against the possibility that the culture of accounting and the narrowness of the view of accountants might be inhibiting to the development of consulting services;

- Need for consulting to be continually innovative, creative, objective and independent;
- Consulting firms aligned with public accounting firms should not be insular but try to identify with and constructively help audit colleagues in broadening the scope of audit and rendering a broader professional service to clients;
- The average type of consulting activity tends to be too mechanistic;
- Need for the consulting professional to submerge some of his commercial instincts and move to the point where he is more selective in the assignments he undertakes;
- Experience tends to indicate that management consultants and indeed many professionals of other disciplines are not good at understanding the cultural and environmental influences affecting their clients and the tradition and mores of the client organization;
- Since partners in professional firms receive most of the profits they tend to have difficulty in keeping good people and inhibit the more experienced consultant from innovative or creative work;
- Entrance to the consulting "profession" indicates that turnover at the third and fourth year is too high for the health of the practice and for the good of the client;

- There should be more give and take between client and consultant and the consultant has a responsibility to "say it like it is without fear or favour and be truly objective and independent";
- The image of consultants in the U.S. is not particularly good and there is a crying need for professionalization of consulting activity to build a reputation;
- Management consultants need to "clean-up their act"; less words and more action; living up to deadlines established at the beginning and during the course of an engagement; more objectivity and independence; a more honest approach in addressing client problems indicating where help is necessary and where it is not;
- Commercial instincts must be submerged in the interests of attaining professional status;
- Use competent people;
- Live closely with pre-agreed budgets;
- Do not pull any punches.

ATTITUDES RELEVANT TO RESEARCH QUESTIONSThe Market (Research Question No. 1)

The summary of answers to Question 1 on page VII-3 and Question 6 on page VII-10 highlight the main perceptions. The author finds nothing to disagree with in these perceptions but the answers to Question 7 by the users provide useful input which has implications for the market for management consultants as they look to the future. It would seem that management consultants particularly, need to behave more professionally, objectively, and independently, and that commercial as distinct from professional instincts are still more in evidence than perhaps they should be at the present time, which has implications for how the market might develop particularly the growth prospects for the future.

Strategic Planning (Research Question No. 2)

Users' opinion insofar as this has implications for a firm's strategic planning activity is sketchy. Users look to management consultants to provide a new perspective and to suggest innovative ideas and approaches and to review strategies and strategic planning activity of client organizations and more than this to provide indepth knowledge about an industry with which a client is not familiar. This suggests that clients expect their consultants to be familiar with environmental matters as this touches on their client's situation and one might therefore infer that management consultants should be continually monitoring their own environment and gathering intelligence thereon in order to maintain a position in the market. One of the responses to question 7 also has reference to the management consultant's perspective of the environment in that users suggest that experience

tends to indicate that management consultants and indeed many professionals of other disciplines are not good at understanding the cultural and environmental influences affecting their clients.

#### Business Development (Research Question No. 3)

The users of management consulting services provide many clues in answering Question 1 during the interview procedure as to where opportunities for business development arise in client organizations. In their answers to Question 4 the users also provide an indication as to their level of price sensitivity and the balance between price and competence as measured by the reputation of individual firms and the individuals in those firms in the market. There are indications however, from user comments under Questions 6 and 7 that prospective clients are apt to be suspicious, at least initially, about a practitioner's development initiatives, and there is also in the minds of some, a suspicion that consulting organizations aligned with public accounting firms might not be as forthright, open, or independent of influence as the independents.

#### Organization Structure (Research Question No. 4)

In the survey of users one does not expect to find much useful information on how a consulting firm should structure its organization. However, responses to Question 2 on selection criteria and Question 7 on advice to management consulting firms do perhaps have an indirect bearing on organization structure. Under Question 2 there is the comment that users should "insist on a personal interview with the firm's representative to determine 'shape of the man', his style and approach". This suggests that users tend to focus on an individual rather than on a firm in making a judgment as to "who gets the job". Under Question 7 are the following observations "consulting

organizations aligned with public accounting firms are perhaps rather more comfortable and complacent than they should be ....., and "public accounting firms should re-examine their auditing role against the possibility that the culture of accounting and the narrowness of the view of accountants might be inhibiting to the development of consulting services".

Management of Human Resources (Research Question No. 5)

On the subject of Management of Human Resources the observations of users of the services can be drawn from responses to Question 6 on the role of management consultants and Question 7 on advice to management consulting firms, to provide insights into the expectations of the client in this subject area. It is interesting to note that "inexperienced people are sometimes presented as experts" and "consultants are apt to be overused and their role needs careful definition before an engagement is commissioned". More specifically the following observations appear relevant by reference to the affiliation of consulting firms. "Consulting organizations aligned with public accounting firms are perhaps rather more comfortable and complacent than they should be because of the protection derived from being part of a public accounting firm", and "public accounting firms should re-examine their auditing role against the possibility that the culture of accounting and the narrowness of the view of accountants might be inhibiting to the development of consulting services". And again "consulting firms aligned with public accounting firms should not be so insular but should try to identify with and constructively help clients in broadening the scope of audit and rendering a broader professional service to clients". "Since partners in professional firms receive most of the profits



they tend to have difficulty in keeping good people and inhibit the more experienced consultant from innovative or creative work" and "entrance into the consulting 'profession' indicates that turnover at the third and fourth year is too high for the health of the practice and for the good of the client". "The image of consultants in the United States is not particularly good and there is a crying need for professionalization of consulting activity to build a reputation". "Use competent people". The foregoing user observations derived from the battery of interviews would seem to emphasize the user's concern with the quality of the professional assigned to handle an engagement. This emphasis on people and professionalism tends to underscore the importance of the management function in a professional organization.

#### Key Success Measures/Controls (Research Question No. 6)

User interviews produced a number of comments under Question 2 on what selective criteria are used. Question 3 - progress reporting on engagements, Question 4 - appropriateness of fees, Question 5 - measures of success, Question 6 - role of consultants and Question 7 - advice to consultants which have an indirect bearing on controls in a consulting practice. Consulting firms would tend as a matter of course to control engagements in process in terms of recording time spent, dollars billed and secretarial assistance provided on the engagement. Users would seem to have fairly definite ideas about communication both written and oral during the course of an engagement and this calls for close monitoring of projects through to the final report. Under Question 4 one notes such comments as the preference to pay high rates per diem for high skills than low rates for an army of people and a suspicion of professionals who might

still be on the learning curve at the client's expense. One also notes that users are sensitive to fee quotations and prefer that these be firm at the outset and that time and costs should be monitored against the original quotation. Still on the subject of engagement control, Question 5, success is measured based on whether all questions in the original terms of reference have been appropriately answered and whether the results of the assignment are sufficiently clear and well enough communicated such as to prompt action. As to the role of consultants at least one of the users is sensitive to a tendency apparent in the demeanor of most professionals and particularly management consultants indicating a consuming interest in self perpetuation of professional work once involved with a client which suggests a pre-occupation with chargeable time to the exclusion of value for money.

The emphasis would appear to be on appropriately qualified individuals from firms who have established a reputation for quality work. An appropriate level of communication during the course of consulting engagements, and independence and objectivity in the handling of engagements. Clients also look for depth of understanding and a challenge of pre-conceptions and display some sensitivity about consultant rates although there would seem to be a trade-off between rates and the quality of professional assigned to an engagement.

Finally, users stress the need to live closely within pre-arranged budgets, and that the consulting professional should submerge some of his commercial instincts and move to the point where he is more selective in the assignments he undertakes. All of these obser-

vations indirectly bear on the way consultants manage and control professionals in the course of engagements. While there is some underlying quantitative aspect in the control measures which might be used to cover the points raised by users there is also the qualitative control which in the final analysis is critical to the success of professional work, and one where practitioners in the attitude survey have ambivalent feelings as to whether quality is measurable or not although with a tendency to indicate that it is measurable to some extent and not purely subjective.

#### SUMMARY AND CONCLUSIONS (Chapters IV to VII)

Before proceeding to the next Chapter where the researcher examines a management consulting firm as a case study, he felt it might be useful at this juncture, to summarize his findings and conclusions on the research questions which emerged from the conceptual framework, Exhibit II-1 and Exhibit III-1, used for purposes of this report.

The focus of the research and analysis has been the professional services industry using management consulting as an example because of its multidisciplinary nature. Several dimensions have been examined, specifically the environment in which the consulting sector operates and its interface therewith; the interface between the individual firm and its environment; and finally the interface between the firm and the industry of which it is a part.

In examining the environment, both national and international, made up of the potential market of clients/users of professional services

(consulting), a number of external influences at work in this market have been examined in various ways as these affect the shape of the market for consulting. The industry (consulting sector) has been researched both from the standpoint of its perception of the environment and reactions thereto as well as its understanding of the internal influences at work affecting the consulting environment and its interface with the market and with members in the industry sector from a competitive standpoint.

The research has involved the development of five types of input in endeavouring to develop a better understanding of the interfaces and interactions between the professional services sector (management consulting) and its environment. The five inputs are firstly, (in Chapter IV) the perceptions of outsiders about the area of research, drawn from a literature review; secondly, (in Chapter V) a statistical analysis of the market; thirdly, (in Chapter VI) the perceptions of industry leaders about the external characteristics as well as the internal influences at work derived from an attitude survey containing 50 statements; fourthly, (in this Chapter) the perceptions of users of consulting services obtained from a cross-section of selected clients, with the focus on seven primary areas of interest likely to influence their attitude and therefore the potential market for consulting services; and fifthly, the perceptions of the author of this research as a participant/observer reflecting on his experiences with the case study firm and as an industry leader endeavouring to place his interpretation on events taking place over a nine-year period which is described in Chapter VIII.

Summarizing the results thus far, I arrived at the following broad conclusions, somewhat hesitantly because of imperfections in the data, about the six research topics.

#### External Characteristics/Influences

##### Research Question No. 1 (Market)

My review of the literature revealed little of a definitive nature addressing the question of what external influences appear to affect the market for professional services (consulting). There were some general statements about the role of management consultants in the market and a reference to economic influences on the market as well as much information about what consultants do. The dynamics of the external environment and the consulting industry specifically is not addressed by any authors in a way which is useful to this research.

Contrarywise, using statistics prepared by the Canadian Association of Management Consultants, the researcher hopes that his exploration of this data along several dimensions has been sufficiently thorough to illustrate the effect of all external characteristics identified in the conceptual framework on the market for consulting. The relative weight of these influences is much more difficult, if not impossible to determine, but at least, there would seem to be evidence of their presence and influence.

The Attitude Survey of industry leaders would seem to confirm that political, economic, technological, social, and competitive

influences are present in the market and influence its shape and size. There are of course, differences of opinion about the extent of the influence of each of these factors based upon the size of the individual firm and the experience of its representative as well as the affiliation of the consulting firm, whether independent or aligned to a public accounting firm.

The users of consulting services, the clients, strongly confirm the existence of the market and the needs to be met by consultants. At the same time they express concern about the commercial instincts as against the professional attitude in evidence at this time in the interaction between client and consultant.

#### Research Question No. 2 (Strategic Planning)

As to what extent strategic planning is feasible and useful to a professional services firm, the literature review was not particularly helpful. Several authors comment in general terms about the roles of a firm's business strategy and the importance of making this relevant to the marketplace. They note also that the determination of a suitable strategy for a company begins in identifying the opportunities and risks in its environment. And one author notes particularly that, "in order to estimate the consequences of continuing present policies one needs to study external trends and developments and to make assumptions about the economic outlook, of the shape of future technology, and competitor's action". Beyond this, I was unable to find specific references in the context of this

research which was helpful.

Likewise, my review of the industry's statistics did not bear directly on this subject although I did conclude somewhat hesitantly, that, during the period 1971 to 1978, some aspects of strategic planning might well have played a part in enabling the industry to grow at a rate almost three times that of the gross national product. This does suggest that industry leaders by conscious action were identifying opportunities in the marketplace both sectorally and functionally and capitalizing on these opportunities by building their resources.

The Attitude Survey of industry leaders was more helpful about the significance of planning. There was indeed a 78% agreement with the statement about the desirability of planning beyond an eighteen month timeframe. More than this there was a 94% disagreement that achieving a planned objective is luck. The 'T' test analysis indicate a not too surprising, that the smaller non-aligned firms and those headed by individuals with fifteen years or less experience tend to have a reactive posture to the market and therefore take a short term view of market prospects. This does however, leave the larger firms and certainly those aligned to public accounting firms and the independent headed by an individual with fifteen or more years experience believing that longer term planning does in fact influence results.

Client opinion insofar as this has implications for a firm's strategic planning activity is sketchy. They would certainly

seem to expect that the management consultants can provide a new perspective for their respective businesses and be able to suggest innovative ideas and approaches and to review strategies and strategic planning activity of their organizations. This implies that clients believe in the feasibility and usefulness of strategic planning and expect their advisors likewise to be knowledgeable on the subject. However, there is a contrary view indicated in one client's response where it is suggested that from his experience, professionals in general are not good at understanding the cultural and environmental influences affecting business and that their perspectives are confined by their professional disciplines.

#### Research Question No. 3 (Business Development)

In the literature review the scope of business development by professional consulting firms one author notes that in most professional organizations no clear dividing line exists between marketing effort and professional effort and that ethical codes of the professions restrict the amount and character of overt marketing effort. These authors go further and state that in their view, with which this author cannot agree, that "the practice of assigning responsibility for a specified share of the market and of measuring performance against targets/ budgets, which is common in an industrial company, is difficult, often impossible, to follow in a professional organization". The author's experience certainly in a consulting environment does not follow this viewpoint. Another author, in a particularly inciteful comment, observes that there is a tendency in consulting organizations to try to be 'all things to all men'



rather than focusing on a few areas of specific expertise.

The same comments apply to this question as to the previous question in the matter of what the statistical analysis revealed. That is that the significant rate of growth of the industry sector in the period under review at least indirectly points to a pro-active posture to the market which translates itself into fairly vigorous business development activity.

Clients, would seem to have a somewhat jaundiced view about the development activity of consultants indicating price sensitivity and also a suspicion that commercial instincts might be overriding professionalism in developing new work and also in finding further opportunities for consulting activity once they are in a client organization. There would also seem to be some feeling that consulting organizations aligned with public accounting firms are influenced by the accounting discipline such that they might not be as forthright, open or independent as the non-aligned consulting organizations.

#### Internal Characteristics/Influences

##### Research Question No. 4 (Organization Structure)

The literature has much to offer on the subject of organization structure generally and to some lesser extent on how professional firms should be organized. This author found a review of the literature about the nature of professional services to be particularly useful in tracing the history and development of the professions and their evolution to meet the needs of a

changing environment. It enabled me to understand more completely the role of management consulting as an 'emergent' profession and be able to understand in greater depth from a sociological point of view the nature of conflicts. One author deals directly with the strategic implications of management advisory services in local and public accounting firms and has a number of useful comments to make about the linkage of strategy and structure of keeping structure relevant to strategy. Another author, dealing specifically with professionals notes that "an increasing number of knowledge workers, will have a 'functional' home, but do their work in a team with other knowledge workers from other functions and disciplines. Knowledge organizations will increasingly have two axes; a functional one managing the man and his knowledge; another one the team, managing work and task". Seen one way this undermines the functional principal and destroys it, seen another way, it saves the functional principal and makes it fully effective. Two other authors observe the conflict of interest which may exist in the minds of professionals working in organizations. On the one hand, the professional needs to take cognizance of organizational objectives and goals but on the other hand he must be mindful of the ethics and rules of conduct of his profession so that there might be times when organizational goals and professional goals might well be in conflict which has implications for the kind of organization structure necessary in a professional organization to minimize this risk.

There is of course no information to be derived from the statistical analysis about organization structure in pro-

fessional organizations but the fact that one set of statistics is by functional area of expertise and is clear and concise while another is by industry sector and is somewhat sketchy tends to point to organization structures of member firms of CAMC being structured functionally rather than by industry.

The Attitude Survey of industry leaders was quite fruitful in providing some answers to the organizational dilemma in professional firms. The views expressed indicate that professionals dislike hierarchical structure and prefer to be grouped by discipline. More than this, industry leaders on balance, do not believe that highly centralized control is appropriate to their organizations. As is to be expected there are some differences of opinion in this subject area revealed by the 'T' tests, notably that the independent consulting firm is more strongly in agreement with the proposition that professionals are better grouped organizationally by professional discipline than their opposite numbers with an accounting affiliation although the difference between these two groups is only a matter of degree. All survey participants however, agree that a professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives and this does highlight potential conflict of interest in the mind of the individual professional and the care which is necessary in designing a structure to allow for this.

Clients of consulting firms have little to say about the organization structure of their consulting firms but certain responses during the interview process have an indirect bearing on this

subject. Firstly, the client focuses on the individual professional who is to provide the service and expects that individual to be appropriately supported by his organization. To the client the individual professional is the consulting firm and indeed the attitude, professional demeanour, experience and capability of the individual are deemed by a client to reflect on the firm which he represents. There is a suggestion that public accounting firms should re-examine their auditing role against the possibility that the culture of the accounting and the narrowness of the view of accountants might be inhibiting to the development of consulting services. This observation would seem to have indirect implications for the way in which consulting firms aligned to public accounting firms are structured within the overall organization.

#### Research Question No. 5 (Management of Professionals)

This research question has been handled under the broader heading of "Management of Human Resources" for purposes of this research, in order to broaden the focus primarily for the purposes of the literature review. There is of course a strong linkage between this research area and the one which precedes it dealing with organization structure, particularly in addressing organizations of professionals. One author notes particularly that "professionals often have motivations that are inconsistent with good resource utilization, and their success, as perceived by their professional colleagues, reflects these motivations". This same author goes on to note that "many professionals, by nature, prefer to work independently and although the leadership of an organization may require more management skills than professional

skills, tradition often requires the manager to be a professional". With these specific literature references in mind, I explored broader references which might have a bearing on organizations where the most, if not the only asset is people. The research produced some interesting insights into the subjects of leadership and management and the qualities of leadership necessary to manage a 'people' organization. The author of this research, based on the literature and to some extent supported by findings from the other areas of research tentatively concludes that leadership in its most literal sense is likely to be more important than management in an administrative sense in a professional organization.

The statistical analysis of CAMC data reveal nothing of consequence on this research question but the attitude survey of industry leaders is quite informative. For example, there is very strong support from these individuals for the statements that morale of the professional is dependent on client involvement, that seminars are needed for morale, and that the professional is more concerned with the client than with his own organization. There is some concern about the critical nature of turnover of professional staff in the life of a practice and the 'T' test analysis not surprisingly reveals that smaller firms are more strongly sensitive to this matter than others. Performance appraisal of professionals is generally felt to be a highly subjective activity although there is somewhat less agreement on this proposition from those consulting organizations affiliated with public accounting firms. Taking the findings under the previous research question on organization structure

and those related to this question the conclusion one reaches overall is that the structuring of professionals in an organization is a complex task, trying to find a balance between the professional's primary concern with his professional objectives and some kind of accommodation with organizational objectives. As illustrated in the conceptual framework Exhibit III-1, the structure and management processes are critical in the interface between the firm and its environment and how well these activities are handled will strongly influence the effectiveness of the firm in addressing the market.

Clients' observations on the management function in consulting organizations are interesting with concern being expressed "that consulting organizations aligned with public accounting firms are perhaps rather more comfortable and complacent than they should be because of the protection derived from being part of a public accounting firm". They also suggest that since partners in professional firms receive most of the profit they tend to have difficulty in keeping good people and inhibit the more experienced consultant from innovative or creative work, and that entrants into the consulting profession indicate that turnover at the third and fourth year is too high for the health of the practice and for the good of the client. Clients also note that the image of consultants is not particularly good and that there is a crying need for professionalization of the activity and the use of more competent people. It would seem from the foregoing that clients are sensitive, as they should be, to attitudes displayed by professionals working on assignments and in turn these attitudes

seem in some way to reflect on the organization and management of the firms to which they belong. That there are shortcomings in these areas in an emergent profession is perhaps not too surprising and perhaps the results of this research might in some way point toward areas for corrective action.

#### Research Question No. 6 (Key Success Measures/Controls)

This research questions enquires into what key success measures/controls seem important in a professional services firm and how important are they in a strategic and operational sense and further, whether these measures/controls are financial or non-financial. The literature survey contained some useful specific information, notably that the billed time ratio which is the ratio of hours billed to total professional hours available is watched closely but that the measurement and control of quality is difficult. More than this it is suggested that the measurement of the revenue generated by a professional's marketing effort is not feasible although the author of this research tends to disagree with this proposition. Two authors note that professionals are generally reluctant to keep track of how they spend their time despite the fact that time tends to be the basis on which clients are billed for services rendered. A critical observation and common to all professionals and people organizations is that the time of staff cannot be stored in inventory and therefore a critical activity which must be measured and controlled is the scheduling of that time. Another author notes that controls must be operational and focused on action. Beyond this authors tend to generalize on this subject area and where they are specific they tend to deal

with industrial and commercial organizations with professional services organizations not having received the same attention.

If the statistical review on the results of member firms of CAMC, does nothing else, it does at least indicate that member firms regard gross revenue analyzed along three dimensions and the number of professional staff employed as important. From this it is possible to develop share of market data, productivity data, market penetration data, and growth statistics which presumably influence the ongoing activities of member firms. No further information can be gleaned from the statistical review about what individual member firms regard as critical success measures/controls.

However, the Attitude Survey of industry leaders was most productive with complete unanimity that the rate of growth is an important measure and that the percentage of time devoted to development is critical. There is a large measure of agreement that the cost of staff is relatively fixed and almost unanimous disagreement with the proposition that profitability cannot be planned. On balance it would seem that the percentage chargeable time as a significant measure, is relatively more important than the percentage of rate realized, and finally as revealed by the 'T' test analysis, there are some differences of opinion on a number of other issues under this research topic. For example there is a fairly significant difference in attitude in dealing with the subject of research and training of professional staff as to whether this is secondary to meeting client commitments. Perhaps not too surprisingly



the smaller firms and those with heads of firms of 15 years of experience or less tend to believe the client comes first and one presumes that they hire staff where more experience and new skills are required rather than invest in the costs of research and training. Finally, the author of this research endeavoured to explore using the factor analysis technique with particular reference to this research question, although the others were part of the testing technique, whether there might be differences in attitude between consulting firms aligned with public accounting firms and the independent firms on this or any of the other research topics. The results unfortunately were inconclusive, although the author suspects that despite the affiliation of a consulting firm its key measures of success and control systems are likely to be similar. The problem in using the factor analysis technique proved to be that the population of independent firms was too small to permit a separate analysis of attitudes from those of consulting firms aligned with accounting firms. Finally, the survey of client attitudes provided some useful insights on their expectations of the consulting firms whom they hire. They stress the need for professional firms to control professional activity with prearranged fee estimates. They expect appropriate reporting techniques to be employed on a continuing basis to keep the client informed of assignment progress. They expect engagements to be controlled such that terms of reference are adhered to and that the results of the assignment live up to the expectations of the client. There is a sensitivity about rates of consultants particularly that rates charged for professionals should be in line with the experience and

capabilities of the profession. Overall, they are influenced in their choice of consultants by the reputation of the individual professional and the firm he represents and look for measures of this reputation in their interaction with business associations and other users of consulting services.

The next chapter is a case study reviewing the activities of a management consulting firm which is a member of the Canadian Association of Management Consultants. The foregoing summary of findings and conclusions on each of the six research questions is used as a background exploring the same questions in the context of the case study firm's history and activity.

PART 3 CONCLUSIONIX - SUMMARY OF FINDINGS

The author has undertaken this research after some 28 years experience in a consulting environment having been encouraged by colleagues and others to synthesize his understanding of the dynamics of professional services organizations using management consulting as an example. At the outset, indications were that this field has not been researched to any material extent as evidenced by the paucity of the literature directly bearing on the operations of professional services organizations. It is a field acknowledged by authors of texts and articles to be complex not so much in the sense of determining what professionals/consultants do but rather how they practice their professions in a business context. This was the challenge to the author and in Chapter I of the research the purpose and scope of the study and background information on the area, from the author's perception, is set out at length. On pages I-21 to I-23 are five broad objectives which it is hoped can be achieved as a result of this report, namely, and in brief:

1. To develop a better understanding of the market for professional services and more particularly management consulting services.
2. To identify and define such relationships as might exist between the market for management consulting services and changes in the environment in which it operates.

3. To identify as far as possible determinants of market shares of businesses operating in this sector.
4. Examine the operation of a professional services business in terms of its cost of doing business in order to isolate those factors which are most significant in the operation of the business and which are both sensitive and critical to changes in the market and therefore influence most directly the profitability of the business.
5. To develop a conceptual framework which describes the environment in which professional services businesses operate; to develop the framework such that there is an understanding of the nature of the market for professional services and specifically management consulting and how this market emerges and its various characteristics.

In Chapter II the author started from a conceptual framework incorporated in a generalized framework of the environment and a firm operating in that environment benefitting from the approaches taken by several authors as they have examined the role of the General Manager and the place of strategy in policy formulation and the matching of resources to opportunities. This framework was explored using the author's perceptions of both the environment and the professional services firm, which served to sharpen the focus on the lines of inquiry which should be pursued in the handling of the research. Chapter III was used to expand the conceptual framework to

develop six research questions and develop the methodology for conducting the enquiry. Briefly, it was concluded that five inputs were needed to be able to offer any meaningful conclusions about the area of research which in brief are as follows:

1. Literature review, the results of which appear in Chapter IV.
2. Consulting industry - statistical analysis, the results of which appear in Chapter V.
3. Industry leaders' attitude survey, the results of which are set out in Chapter VI.
4. User (client/market) survey, the results of which are set out in Chapter VII.
5. Case study, the results of which are set out in Chapter VIII, in Volume II.

Supporting Appendices and a Bibliography appear at the end of the report.

In examining the literature, the data base, industry leaders' perceptions, users' perceptions and case study evidence, the following six subject headings were used:

1. The Market )
2. Strategic Planning ) Environment/External Character-
3. Business Development ) istics/Influences
4. Organization Structure )
5. Management of Human Resources ) Operational/Internal Char-
6. Key Success Measures/Controls ) acteristics/Influences

In approaching the industry/services sector representing the management consulting firm, a statistical analysis of performance was made and an attitude survey was conducted under the foregoing headings containing 50 statements which it was hoped would provide collective insights on critical aspects in the operation of a management consulting organization by industry leaders, and to compare these perceptions or attitudes against those displayed by the case study firm, in evidence in the literature, and mentioned by the users of consulting services. Further than this, insofar as the industry attitude survey was concerned, the researcher felt it might be useful also to analyze the results of the survey along three dimensions as follows:

1. The size, the number of professional staff, of the firm which the respondent represents.
2. The number of years spent in professional practice and consulting by the respondent.
3. Whether the firm is part of a public accounting practice or is independent.

At the conclusion of Chapter I and Chapter III the author noted that the research topic is complex and the approach is unlikely to be perfect having a number of shortcomings likely to be evidenced by the kind and quality of responses and other evidence gathered from the five lines of inquiry. Recognizing this, the author opted for a holistic or naturalistic approach to the research in order to, on the one hand, preserve the breadth and scope of the inquiry and, on the other hand recognize that the subject area in terms of the objectives to be served did not lend itself, except possibly in the analysis of responses from industry leaders, to the scientific method. This is not to deny however, that, having arrived at the concluding chapter of this research, that certain aspects of the subject area might now be explored in greater depth using scientific methods to validate or otherwise the author's perception of the influence or shifts in the environment, changes in the profile of the competitive forces and even yet, an indepth exploration seeking an optimizing technique between the two critical variables of rate and billed time over short intervals.

Chapter IV is a fairly extensive review of existing literature which tended to confirm the author's view that little of a definitive nature has been set out in text books, general articles or dissertations on the nature of professional services organizations nor the dynamics of operating a practice. However, there was a useful body of knowledge dealing with professionals, professionalism and professional services approached from a number of different points of view explaining the role of the professions in society and the behaviour patterns of the established professions as against emerging professions. The latter was particularly interesting since the

author recognizes management consulting as a separate and distinct profession, is an emergent profession unique in that it binds together professionals in certain established professions as well as professionals in other emergent professions. The rest of the literature review focused on more general statements by a fair number of authors about the seven subject headings used in the Attitude Survey of practitioners. It was felt that if one could start from certain general propositions drawn from the literature one might then effect some kind of comparison and relationship with the practice of management consulting. This indeed proved to be the case.

Chapter V is a statistical analysis of the industry's performance, the case study firm being a member, and examines trends in the market over a 9-year period in the 70's regionally, functionally, and sectorally, tying this back to the author's perceptions of external influences set out in Chapter II. Trend profiles of the market are examined along the three dimensions referred to above and used later in Chapter VIII for a comparative analysis of the performance of the case study firm along the same three dimensions, regionally, functionally and sectorally.

The industry statistical analysis is followed by Chapter VI setting out the results of an Attitude Survey of industry leaders using a questionnaire approach in which 50 statements or hypotheses are set up with the author seeking agreement or disagreement therewith. With virtually a 100% response it was possible to proceed with a reasonable degree of confidence to analyze these results using the 'T' test and factor analysis techniques to measure the strength of attitudes on the one hand and the 'clustering' of attitudes on the other.



Following this in Chapter VII the results of six indepth interviews with a cross-section of users of consulting services is set out providing some interesting insights into the environmental/external market view of the consulting sector. The foregoing three-way examination of the industry (statistical analysis of results, attitude survey, and user interviews) is followed by a parallel study of case study data and characteristics, with the researcher as a participant/observer ascribing to the trend analysis as far as can be determined, the effect of external and internal influences described using the conceptual framework in Chapter II and III.

The closing section of Chapter VII, using the research framework of the consulting environment which appears in the Exhibit III-1, focuses on the interfaces between the environment and the consulting industry, drawing on the literature, the performance of the industry, the perceptions of industry leaders, and the perceptions of users of consulting services. The author endeavours to establish linkages between the market environment and the consulting industry, using the six research questions as the vehicle. The closing section of Chapter VIII parallels this approach examining the performance of the case study firm using the perceptions of the author as a participant/observer.

Chapter VIII contains a fairly exhaustive description and analysis of the case study firm using a 25-year chronology but with a focus on the last 9 years of its history. Cause and effect relationships were examined flowing from events over the course of the history of the case study firm and the organizational developments were traced through several stages of development through to a point where the

firm was probably the largest member of the Canadian Association of Management Consultants.

Set out below is a summary of research results.

#### SUMMARY OF RESEARCH RESULTS

1. The author believes that at least in general terms, he has achieved the five objectives set out for the research in Chapter I and abbreviated at the beginning of this Chapter. The subject is complex and the set of relationships between the environment, the industry and the individual firm is even more complex. However, while adopting a holistic approach and a broad perspective it is hoped that the reader comes away with a better understanding of the complex of relationships as well as operational dynamics involved in this kind of business.
2. The literature survey did not prove to be particularly useful except as a broad framework in a general descriptive sense of the various aspects of business which the author sought to explore. There were two exceptions namely the several authors who have written about the professions; Drucker, who comments directly about the nature of professional services and the management consultant; and Benham, whose recent dissertation on the emergence of MAS services in a regional public accounting firm in the United States, collectively provided useful insights.

3. About environmental influences affecting the market for consulting services in a political, economic, technological and geographic sense, the industry statistics would seem to confirm the author's perceptions of the strength or otherwise of these influences with industry leaders in the smaller firms confirming that economic conditions are the primary influence on the volume of consulting work while the larger firms are in mild disagreement. There would seem to be more disagreement than agreement with the statement that changes in government have no effect on the consulting market and that there is an influence in the political and technological areas and this appears to be supported by the responses received from user interviews. There would, however, appear to be two-thirds of the opinions of respondents agreeing with the statement that management consultants strongly influence the size and scope of the market they serve. This at least implies that there is an interactive influence at work in the market and the industry but this cannot be considered conclusive in light of agreement by two-thirds of the respondents that it is rarely possible to create an opportunity where a need does not exist.
4. In the competitive environment namely the industry members as they see one another in the market and also as the case study firm interacts with other members of CAMC, there is fairly strong agreement that competition is stronger in the public than in the private sector market with groups affiliated with public accounting

firms feeling this competition more strongly than the independents. However, in spite of this competition, there is general agreement by over two-thirds of the respondents that consulting firms can have too much public sector business against private sector business. A point related both to the market as well as the competitive environment in a consulting firm's planning activities, there is overwhelming disagreement with the statement that planning to enter a market segment is one thing; achieving it is a matter of luck. This does rather suggest that members of this service sector, management consulting, do believe that despite external environmental influences as well as competitive forces they are still able to plan for and develop new opportunities for work. This belief is further supported by the comments of some of the users of management consultants in response to Question 1 about when to use the services of management consultants. Some of these responses suggest that there are opportunities for consulting activity provided firms and individuals representing them are in "the right place at the right time".

5. The structure of the industry sector was examined through the attitude survey of industry leaders exploring attitudes along three dimensions; size of firm, experience of industry leader, and affiliation with public accounting firms or independents. A factor analysis of the responses tended to show five

types of consulting firm among the members of CAMC and these types tended to fall into categories more related to their stages of development in terms of size and scope of practice rather than indicate clearly whether affiliation with a public accounting firm or not exerted an influence. The author was frankly disappointed by this result but perhaps the sample was too small but the national market does not offer any larger sample.

6. The detailed examination of the case study firm vis-a-vis the industry was in the author's view rich in content. It provided an opportunity to illustrate clearly the importance of a firm continually monitoring its environment as suggested by a number of authors in the literature survey. The costs of not doing this were very evident. The critical nature of the management function in a professional firm to provide leadership and sustain morale was also very much in evidence and the costs of not doing this were obvious. The costs of moving from a pro-active to a reactive strategy in relation to both the competitive and the market environment would also seem to be evident from the marshalling of the facts and this in turn highlights what a number of authors have commented on namely the ongoing need for strategic planning followed closely by structural considerations in the matching of resources to meet the market.

The author has derived much value from probing the environment, the industry and the case study firm in the search for critical factors or influences to explain the dynamics of professional services firms in the interaction with the market for their services. Management consulting has offered a useful vehicle to aid this exploration, considerably helped by the author's length and depth of experience in this sector. This research has primarily a policy orientation by its very nature and it is hoped that from a reading of the material that it might assist others in establishing guidelines for the formulation of policy and the implementation of strategy. The author concedes that he is less than satisfied with the tangible results of the work believing that this field is rich and challenging and ripe for exploration. Accordingly, he has the following suggestions to make.

#### OPPORTUNITIES FOR FURTHER RESEARCH

The author would have liked and might still pursue this research into the following areas:

1. The author conducted some preliminary investigation into a predictive technique of the market as set out as an Addendum in Chapter II. This was very much unsupported in any way except that it appeared to work over a short span of years. An indepth examination of the factors affecting the market and examination of a profile of consulting organizations operating in that market might provide greater confidence in such a technique.

2. This research has focused on management consulting as a professional service and it would be particularly useful building on this research to explore other professions both established and emerging to determine whether the influences at work are the same or not.
3. The author would have liked to have found a distinction in the approach to management consulting by firms aligned with public accounting firms as distinct from the independents. Intuitively he believes that consulting firms aligned with public accounting firms are bound to be influenced by the unicultural influence of the major part of such firms. However, the author has been constrained by the national boundaries of the Canadian market and those operating in it and as it is, believes he has sampled firms who account for over 60% and probably 70% of the market. Researchers in larger markets such as the U.K. or the U.S. might expand their field testing in search of some measure of a difference in approach if such exists.
4. The determinants of market share as an objective of this research has, one must admit, been dealt with fairly superficially for lack of information and also because other areas of research seem to justify greater time and effort. If one could by some longitudinal survey over a period of years study the performance of a number of firms, noting critical events during those years, it might be possible to ascribe reasons for varying shares of market. As it

is the author has only been able to examine the share of market of one firm and endeavour to link events to that share of market to account for variations.

5. The writings on professionals, professionalism and professional services were found to be most inciteful and I believe useful research might now be done on management consulting as an emergent profession to determine whether its pattern of development over the next few years to an established profession conforms to the theories developed by a number of authors on this subject.
6. One of the key success factors in the practice of management consulting and I would suppose of all of the professions is to be able to control the quality of the service. Most authors in the literature comment on the quality of professional work and suggest that it is not measurable and yet one finds industry leaders in responding to the question as to whether standards of quality for professional work are highly subjective and not measurable tend to disagree, indeed 12 out of the 18 respondents apparently believe that standards of quality for professional work are not highly subjective and are measurable. This does suggest that there is some aspect of quality which is measurable and the 'T' test results indicate that those who strongly believe that quality is measurable and not highly subjective are



consulting firms affiliated with public accounting firms. It seems to the author that there is some area here worth exploring possibly in the established professions such as accounting, law or medicine to determine how this is done and how standards are established against which one can measure results.

In summary and in conclusion, the author has derived much satisfaction and benefit in pursuing this research since it has enabled him to draw on thoughts and ideas developed over time and that of experience which needed a framework for expression and exploration. This thesis with the advice and guidance received has provided the means.

APPENDIX A

CAMC/ABA GROSS BILLINGS

1971 - 1978

SHARE BY REGION

Source: Annual Reports - CAMC/ABA.

CAMC/ABA GROSS BILLINGS

1971 - 1978

SHARE BY REGION

INDEX

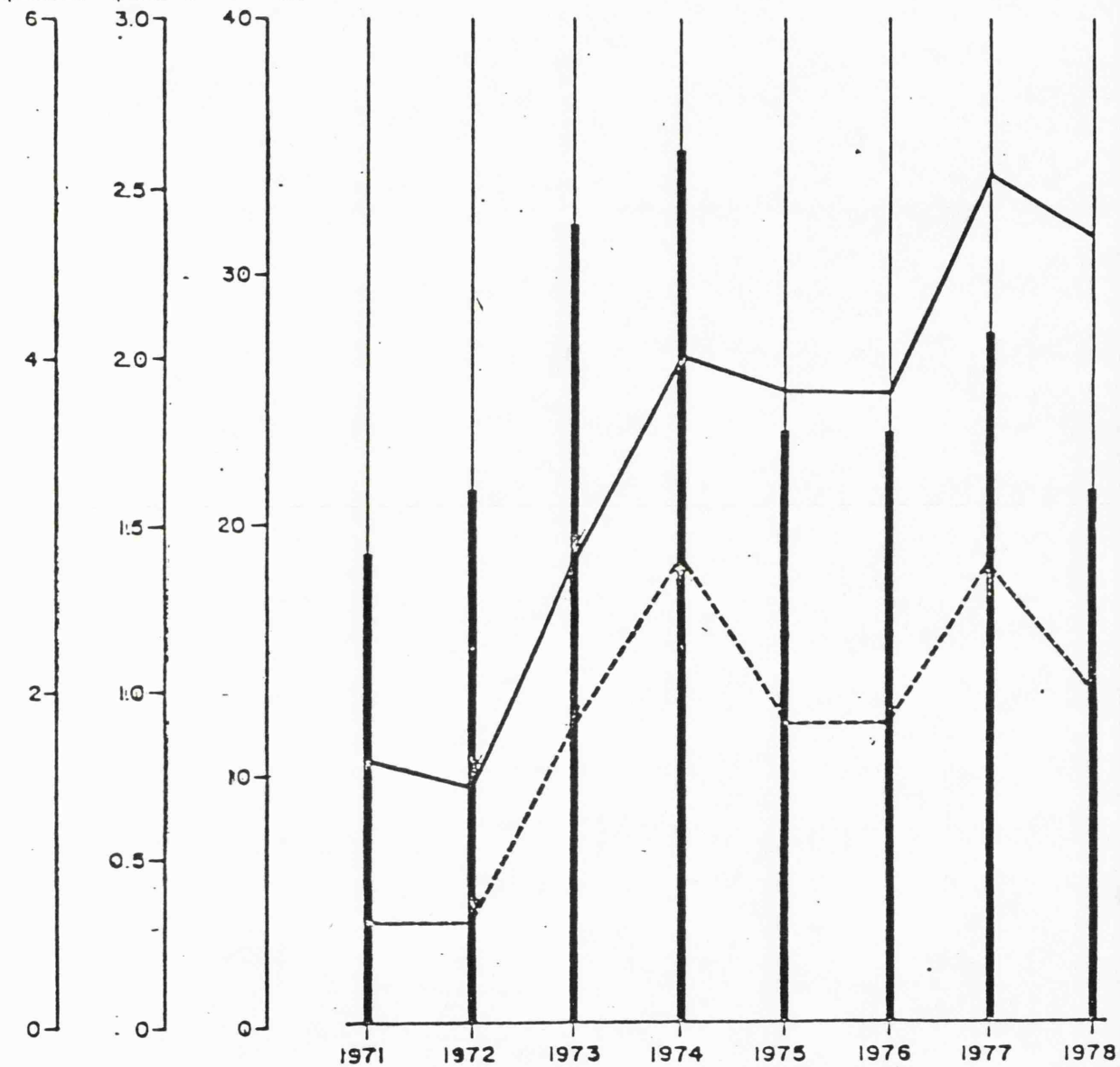
PAGE NO.

BY REGION

|               |     |
|---------------|-----|
| B.C.          | A-1 |
| PRAIRIES      | A-2 |
| ONTARIO       | A-3 |
| QUEBEC        | A-4 |
| MARITIMES     | A-5 |
| INTERNATIONAL | A-6 |

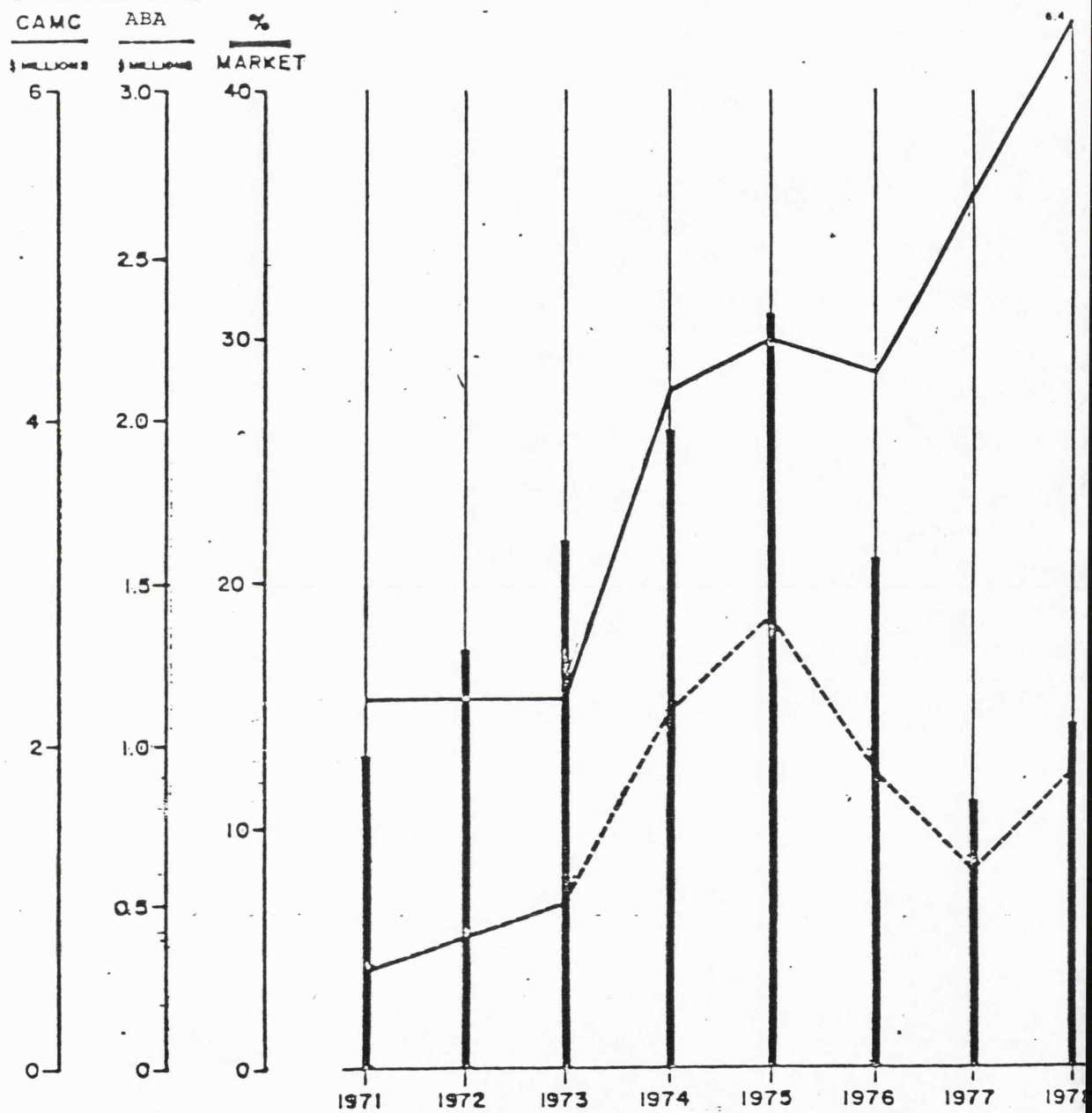
## GROSS BILLINGS

| CAMC        | ABA         | %      |
|-------------|-------------|--------|
| \$ MILLIONS | \$ MILLIONS | MARKET |



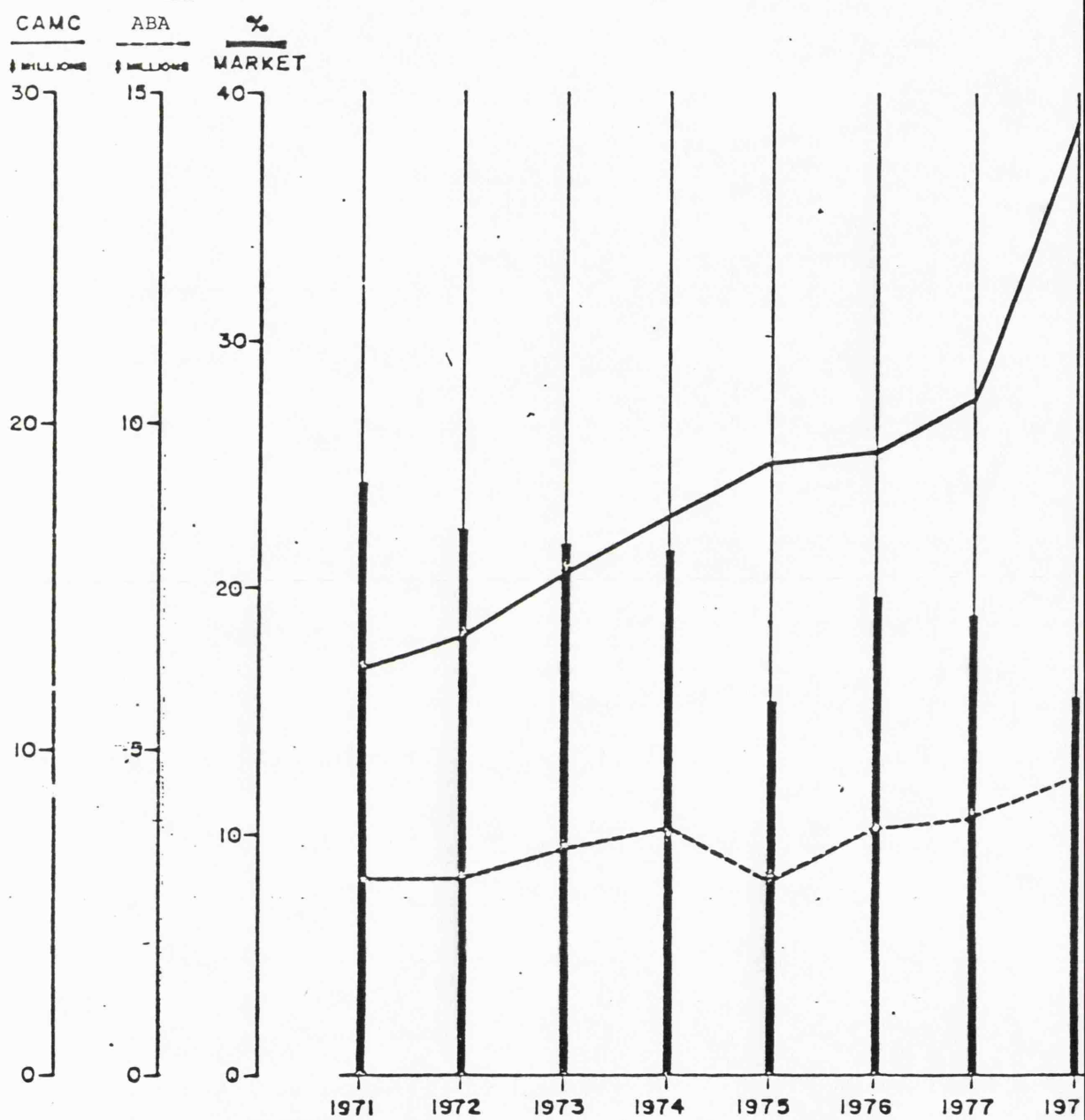
BRITISH COLUMBIA

## GROSS BILLINGS



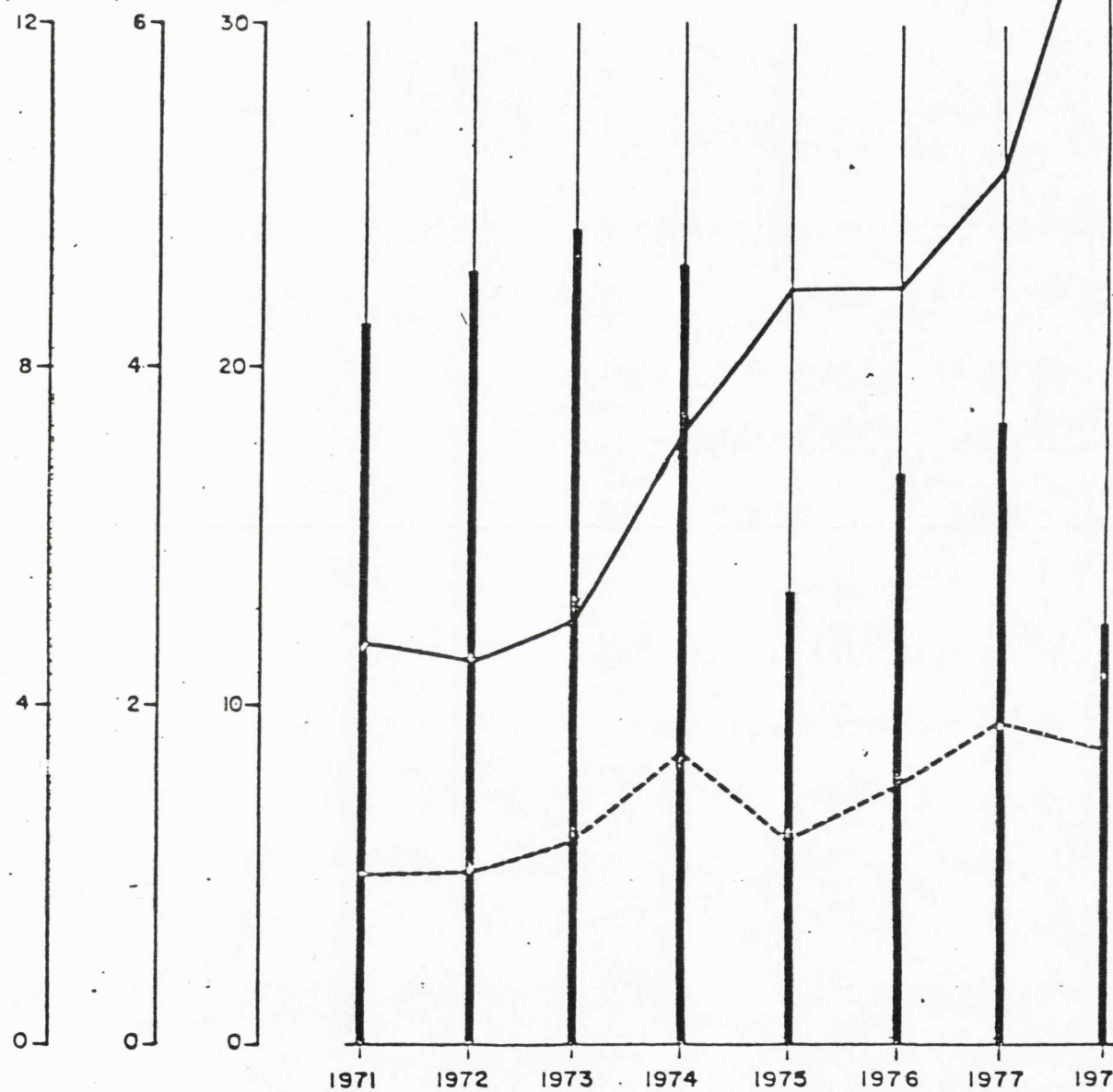
PRAIRIES

## GROSS BILLINGS

ONTARIO

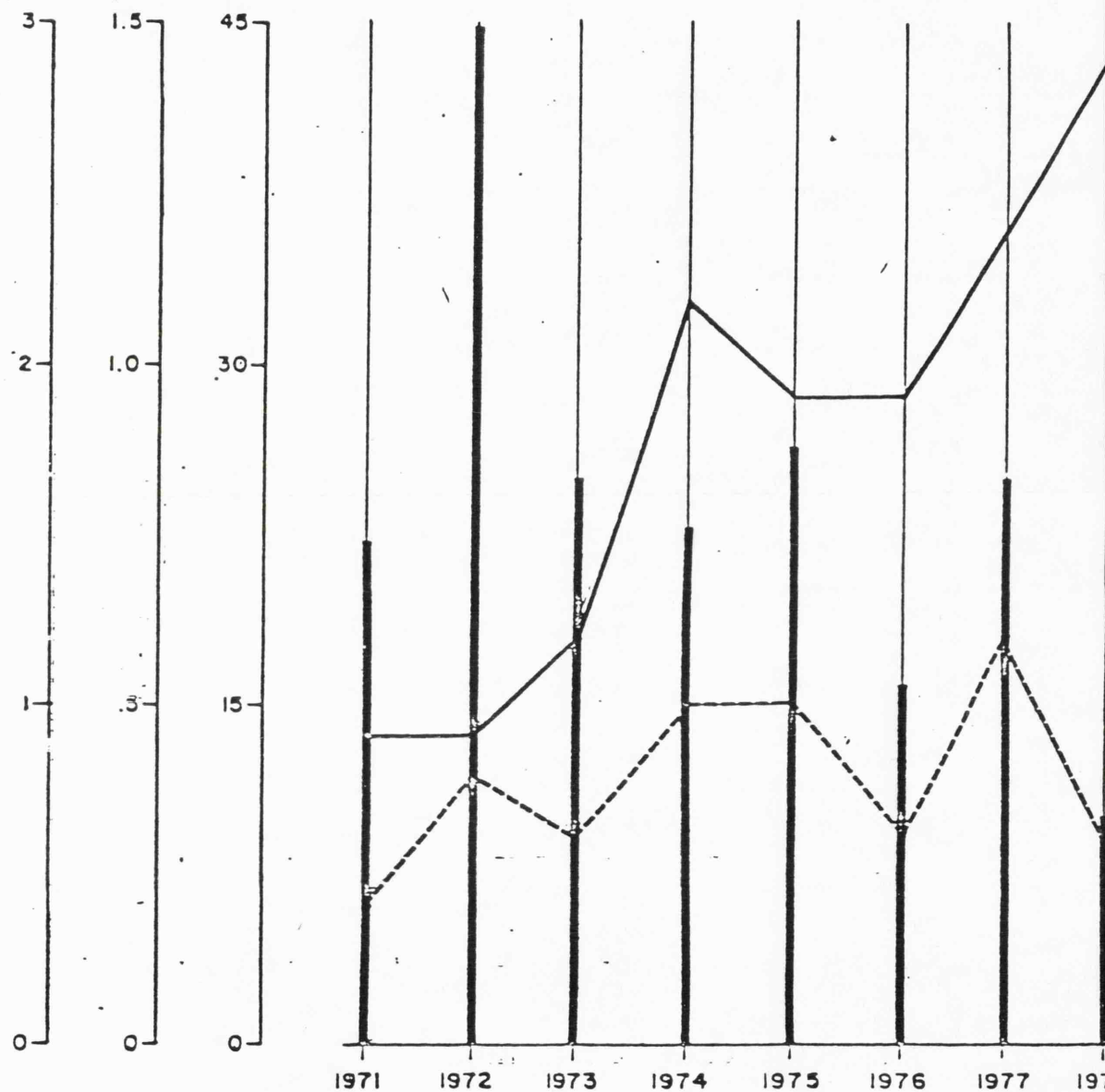
## GROSS BILLINGS

| CAMC        | ABA         | %      |
|-------------|-------------|--------|
| \$ MILLIONS | \$ MILLIONS | MARKET |

QUEBEC

GROSS BILLINGS

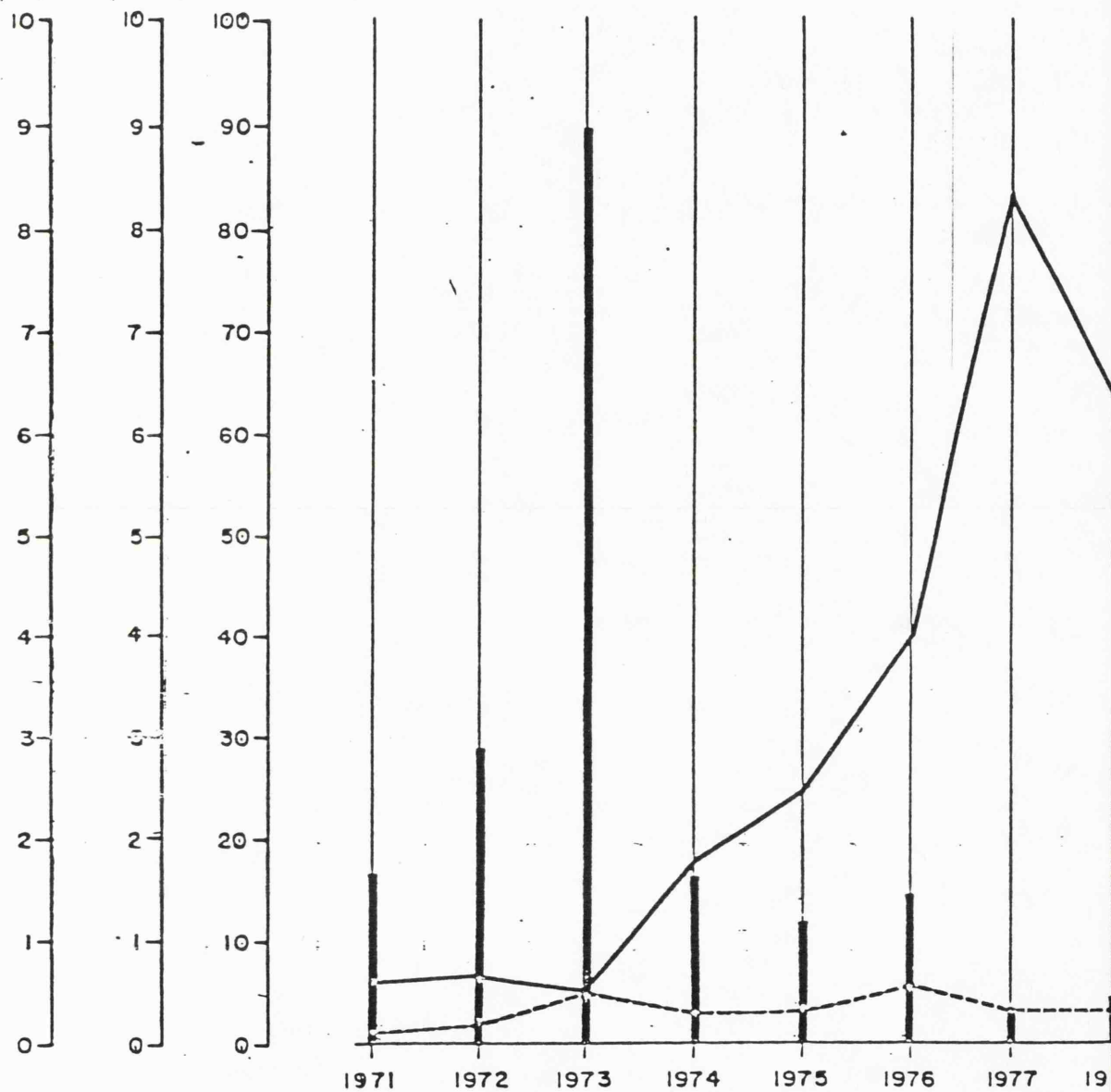
| CAMC        | ABA         | %      |
|-------------|-------------|--------|
| \$ MILLIONS | \$ MILLIONS | MARKET |

MARITIMES



## GROSS BILLINGS

| CAMC        | ABA++       | %      |
|-------------|-------------|--------|
| \$ MILLIONS | \$ MILLIONS | MARKET |



INTERNATIONAL

APPENDIX B

CAMC/ABA GROSS BILLINGS

1971 - 1978

SHARE BY FUNCTION

Source: Annual Reports - CAMC/ABA.

CAMC/ABA GROSS BILLINGS

1971 - 1978

SHARE BY FUNCTION

INDEX

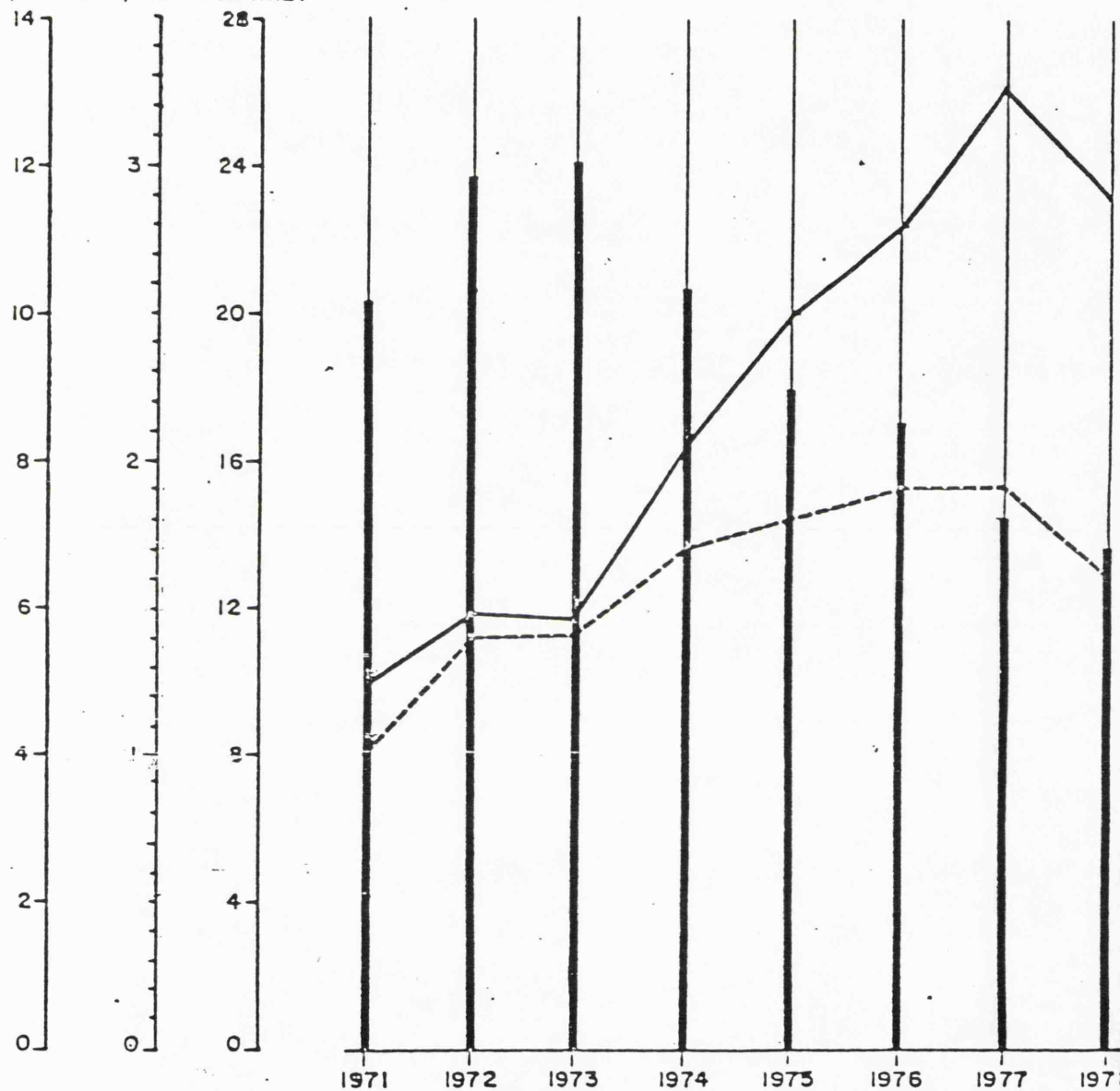
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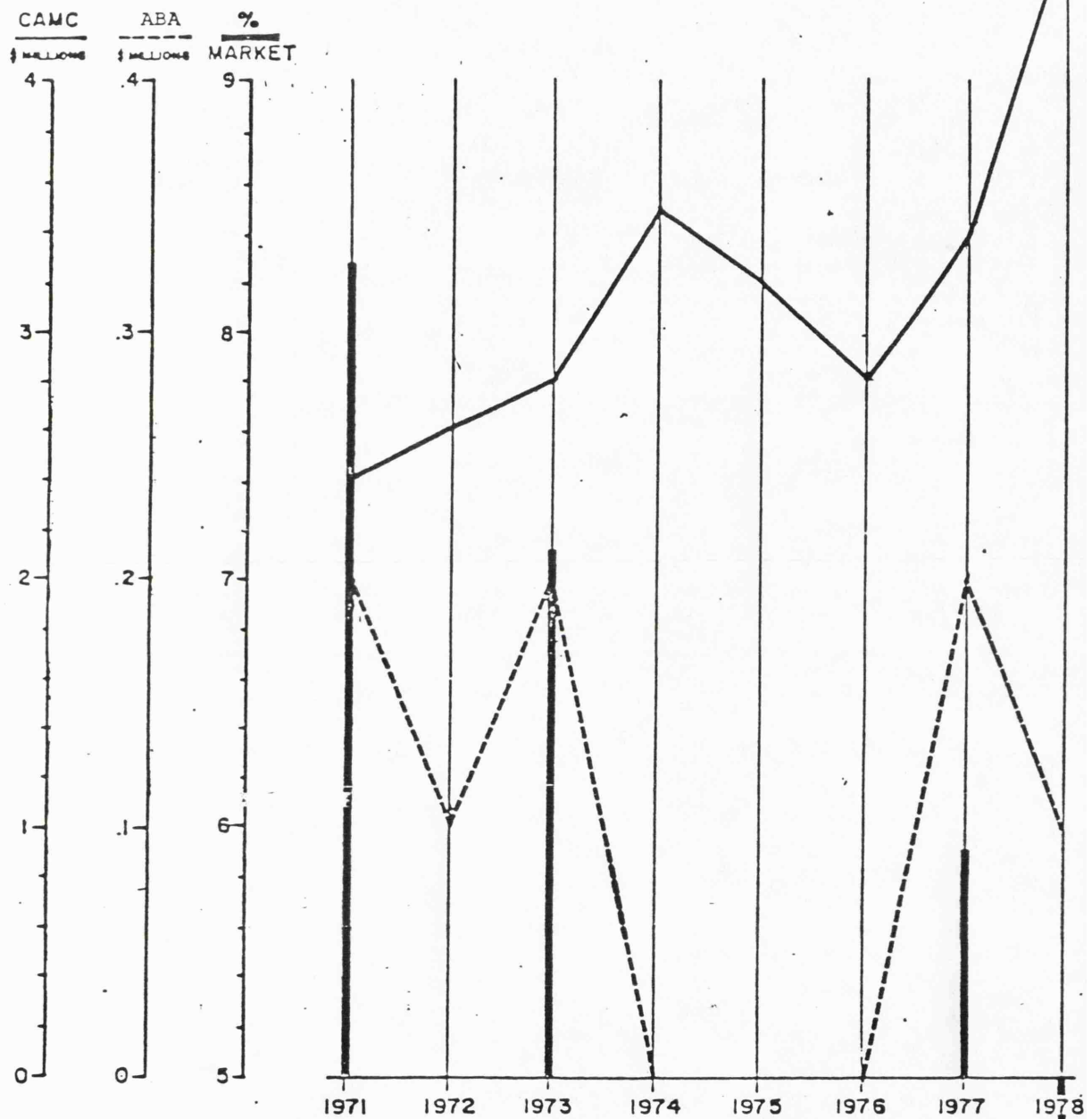
BY FUNCTION

|   |     |
|---|-----|
| GENERAL MANAGEMENT/ORGANIZATION         | B-1 |
| PRODUCTION                              | B-2 |
| MARKETING                               | B-3 |
| FINANCE AND CONTROL                     | B-4 |
| COMPUTER APPLICATIONS                   | B-5 |
| PERSONNEL SERVICES                      | B-6 |
| EXECUTIVE PLACEMENT                     | B-7 |
| ECONOMIC STUDIES & RESOURCE DEVELOPMENT | B-8 |

GROSS BILLINGS

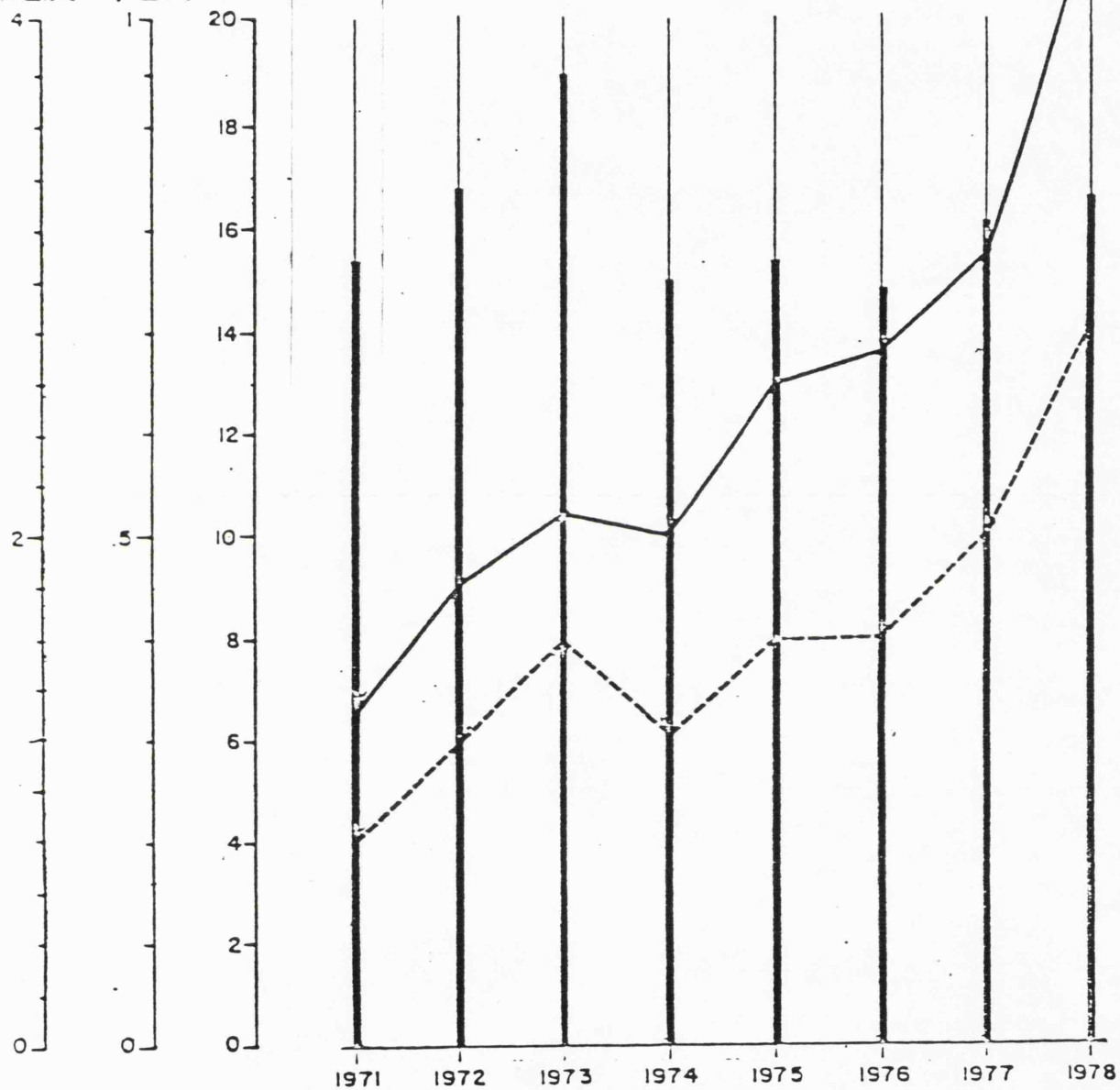
| CAMC        | ABA         | %      |
|-------------|-------------|--------|
| \$ MILLIONS | \$ MILLIONS | MARKET |

GENERAL MANAGEMENT / ORGANIZATION

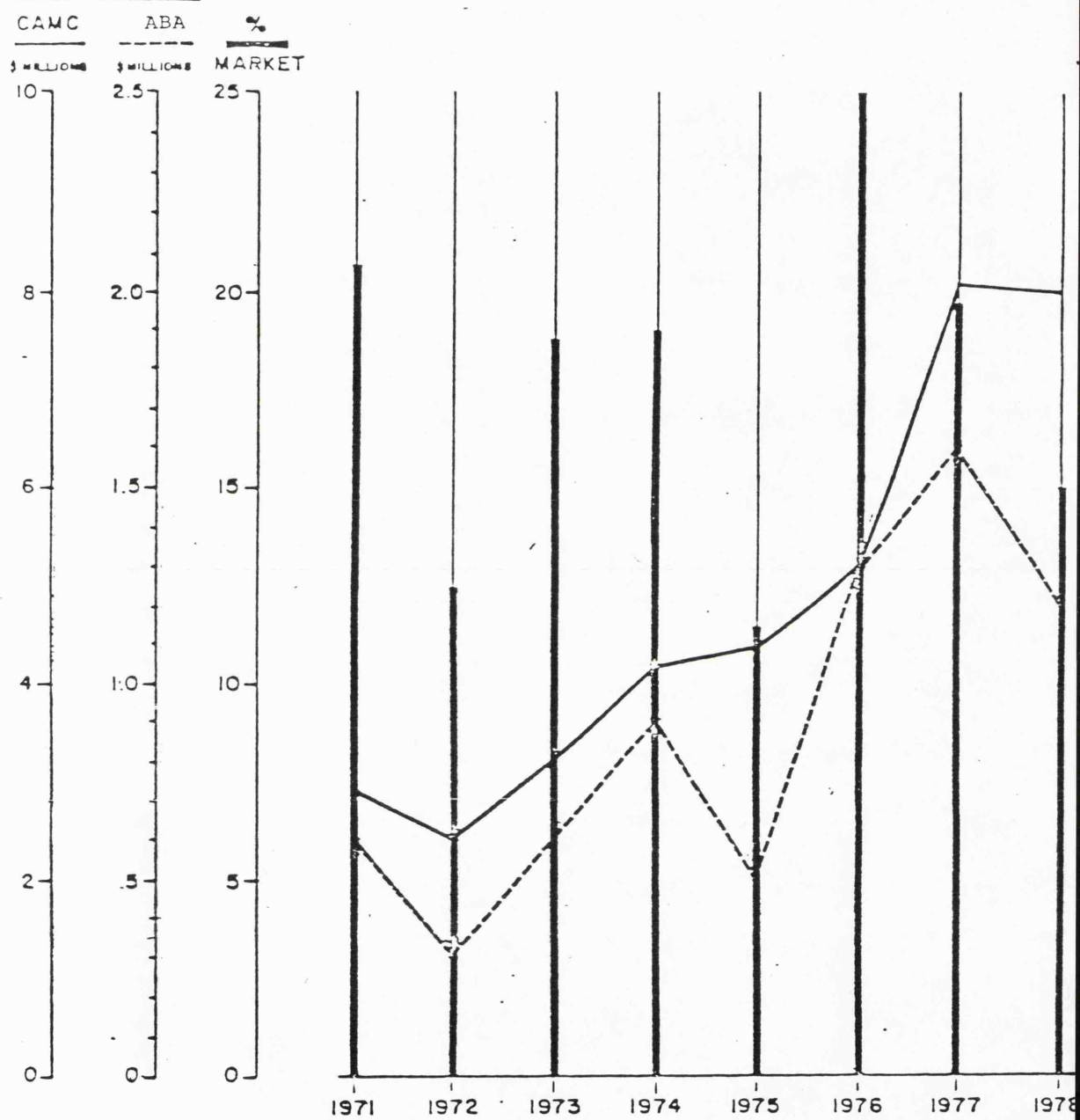
GROSS BILLINGSPRODUCTION

## GROSS BILLINGS

| CAMC     | ABA      | %      |
|----------|----------|--------|
| MILLIONS | MILLIONS | MARKET |

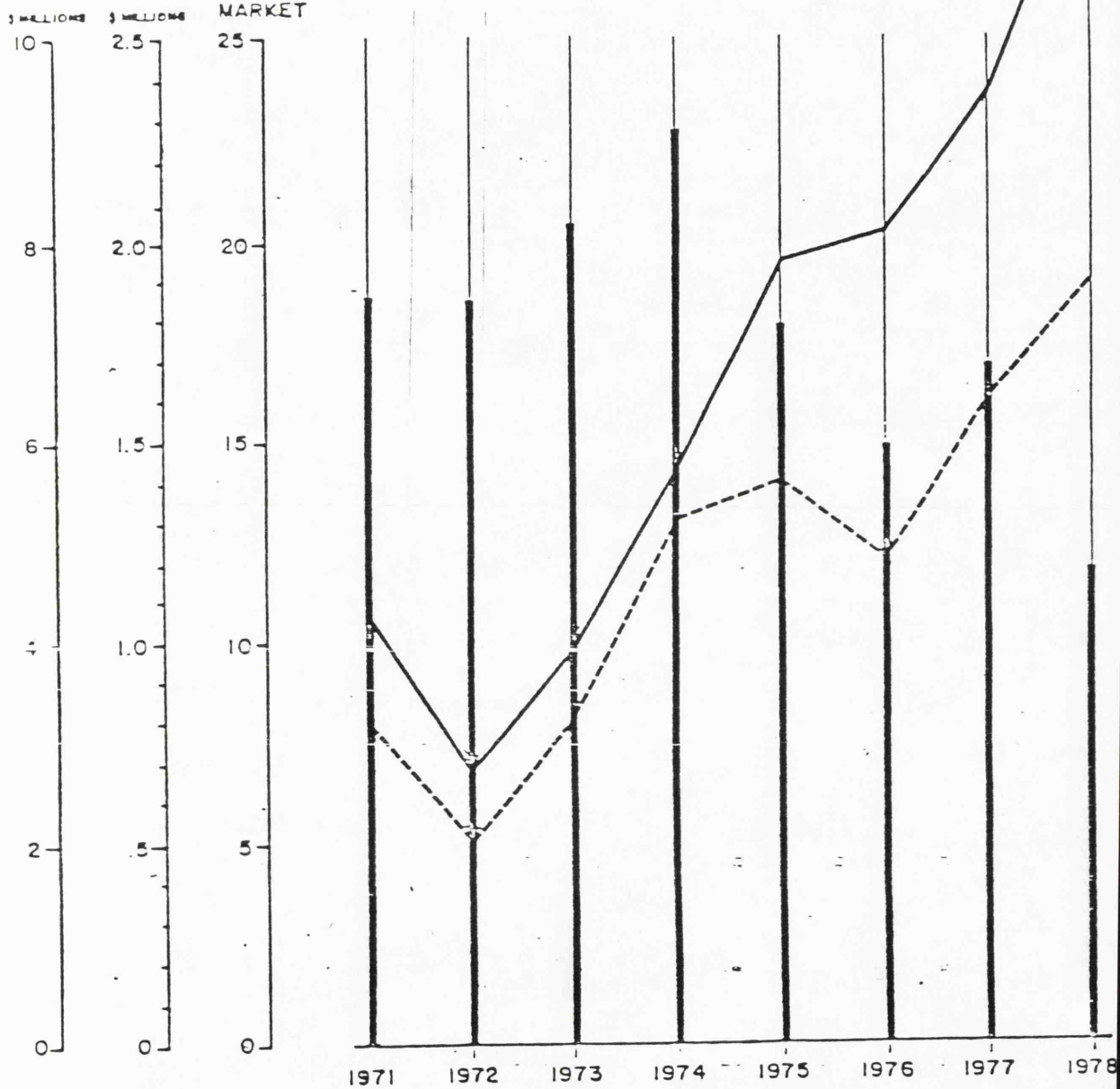


## MARKETING

GROSS BILLINGSFINANCE AND CONTROL

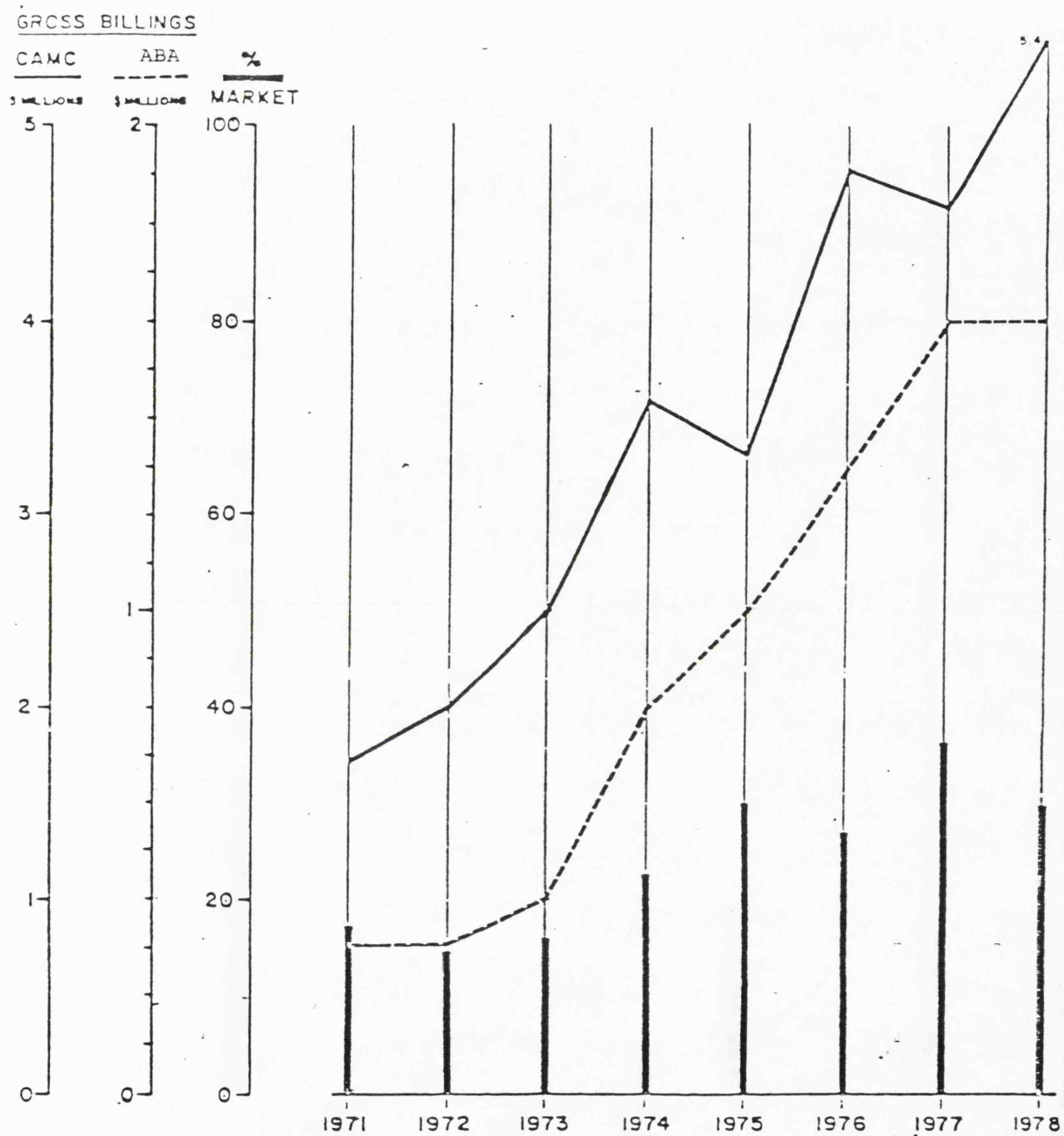
## GROSS BILLINGS

| CAMC | ABA | % MARKET |
|------|-----|----------|
|------|-----|----------|



## COMPUTER APPLICATIONS

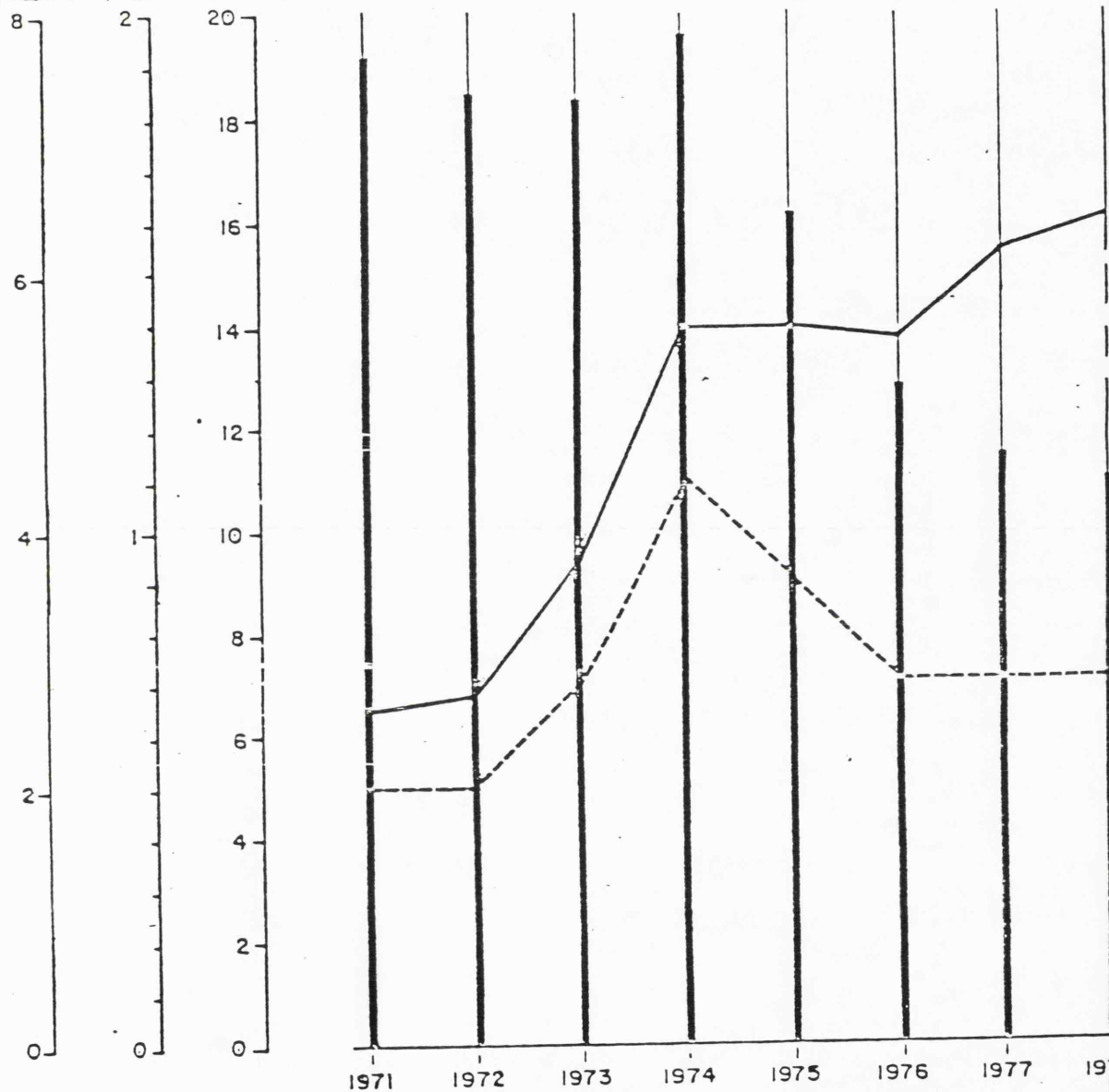




PERSONNEL SERVICES

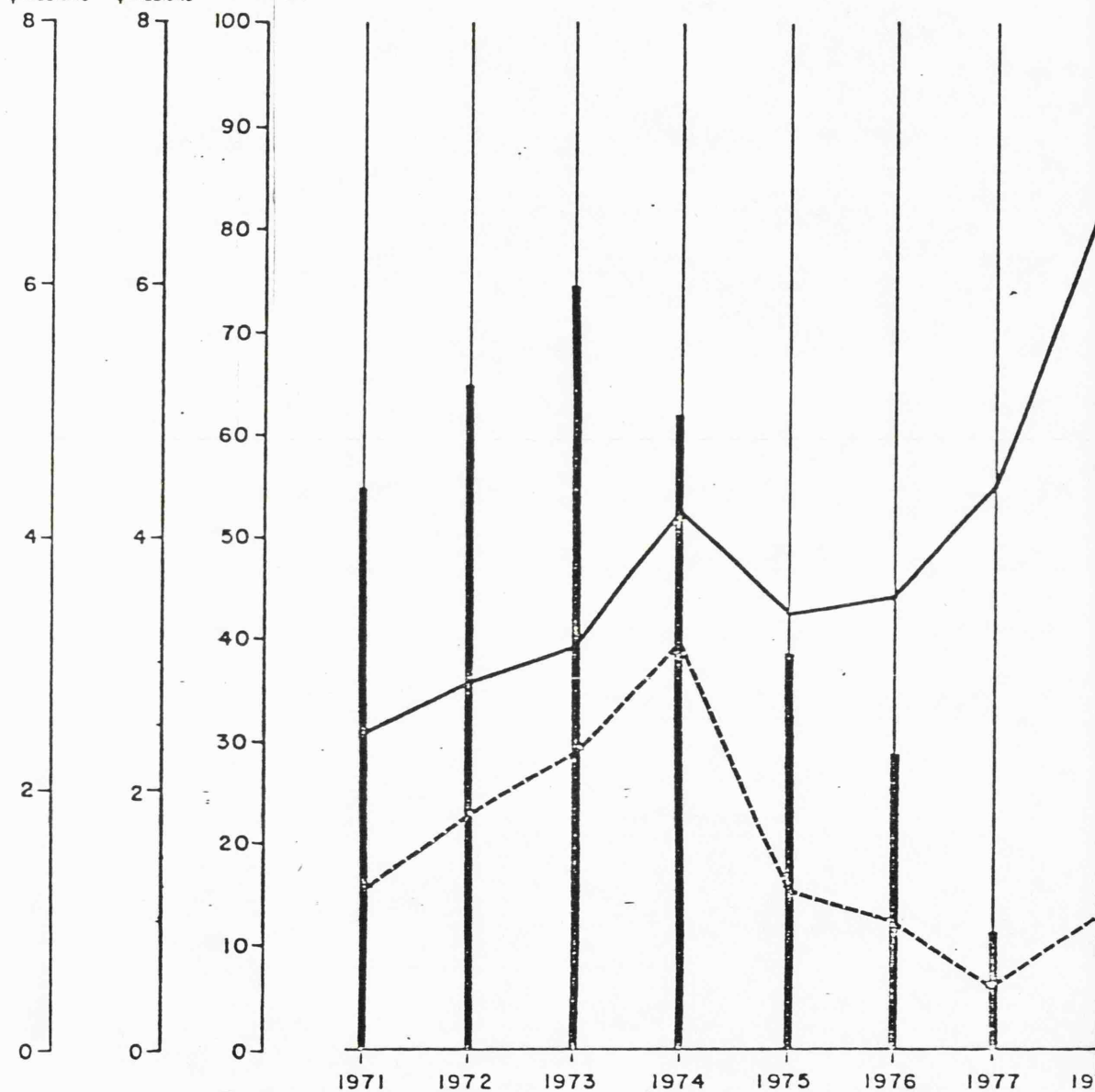
GROSS BILLINGS

| <u>CAMC</u>        | <u>ABA</u>         | <u>%</u>      |
|--------------------|--------------------|---------------|
| <u>\$ MILLIONS</u> | <u>\$ MILLIONS</u> | <u>MARKET</u> |

EXECUTIVE PLACEMENT

GROSS BILLINGS

CAMC      ABA      %  
\$ MILLIONS    \$ MILLIONS    MARKET

ECONOMIC STUDIES & RESOURCE DEVELOPMENT

APPENDIX C

ATTITUDE SURVEY OF INDUSTRY LEADERS

Source: Author

School of Business and Economics

**Wilfrid Laurier University**



Waterloo, Ontario, Canada N2L 3C5. Telephone (519) 884-1970

September 29, 1981

E

Dear E:

As you may recall, from the CAMC annual meeting last year, I took advantage of early retirement provisions at ~~██████████~~ last year, to finish off my working career as an academic. I felt that business students might benefit from my background and experience and I, in turn, might have the satisfaction of their fresh outlook on today's world. My first year in academia has lived up to my expectations.

My purpose in writing is to seek your help through possibly 20 minutes to 1/2 hour of your time in helping me with a piece of research via the attached questionnaire. Permission to approach you was given by your Executive Committee at its meeting on Tuesday, September 22nd, 1981 and ratified by the Board in the meeting which followed. Now, I know you were exposed to something like this last year which proved to be time consuming. Let me reassure you that the best kind of response to the series of statements in the attachment is immediate, instinctive, or 'gut' reaction (not "considered" opinion). I am looking more for emotional response. I will now explain the enclosure.

I want it to be completely confidential and anonymous and I have enclosed a return stamped-addressed envelope to avoid your using your own firm's stationery. At the top of the questionnaire, however, I am asking for a general profile of the respondent through the first 3 questions but not enough to breach confidentiality. Please (✓) in the appropriate boxes.

The statements themselves are self-explanatory and I would like your 'gut' reaction in the form of a (✓) in one of the five columns as follows:

1. Agree (strongly)
2. Agree (generally)
3. No opinion
4. Disagree (generally)
5. Disagree (strongly)

Some statements scattered through the questionnaire contradict other statements elsewhere. Please ignore this since it is only a test of consistency. There is space on page 6 if you wish to comment in any way on the questionnaire or the subject generally and please feel free. I plan to provide you with a summary of the responses, which will be computerized with some cross-sectional analysis. Accordingly, I would really appreciate a 100% response to this short exercise which I think you might even find stimulating and thought provoking.

.../2

This is part of a project I am undertaking in conjunction with the School of Management of the University of Bath, England. It relates to the dynamics of professional service organizations of which management consulting is one kind. There is surprisingly little information on this topic, so, hopefully, my efforts, with your support, could be a contribution to knowledge.

I will much appreciate your help by completing the attached questionnaire and giving it a fast 'turn around'; busy schedules permitting of course. You might even save it for your next plane trip to Ottawa or wherever.

Best regards,

Yours sincerely,

TD/eg

Tom Diggory  
Professor of Business Policy

## UNIVERSITY OF BATH

## School of Management

## Professional Services (Management Consulting) Firms

## ATTITUDE SURVEY ON OPERATIONAL INFLUENCES

|   |    | Up to 30                    | 31-60 | 61-90 | 91-120      | Over |
|---|----|-----------------------------|-------|-------|-------------|------|
| 1. <u>Size of firm</u><br>(No. of professional staff)   | D1 | 0                           | 6     | 2     | 2           | 8    |
| 2. <u>No. of years in management consulting of the respondent</u><br>( <u>Not</u> the firm; the individual) | D2 | 0                           | 3     | 6     | 5           | 4    |
| 3. <u>Affiliation</u>   |    | With Public Accounting Firm |       |       | Independent |      |
|   | D3 |                             | 11    |       |             | 7    |

|               |  | Agree |    | Disagree |   |
|---------------|--|-------|----|----------|---|
|               | STATEMENTS   | 1     | 2  | 3        | 4 |
| A. THE MARKET |  |       |    |          |   |
| V001          |  |       |    |          |   |
|               | 1. Economic conditions are the <u>primary influences</u> on the volume of consulting work      | 1     | 5  | 3        | 8 |
|               | 2. Changes in government federal/provincial/municipal have no effect on the consulting market. |       | 6  | 3        | 8 |
|               | 3. Competition is stronger in the public than in the private sector market.                    | 3     | 10 | 2        | 3 |
|               | 4. Technological change exerts only a minor influence on the scope of practice in consulting.  | 2     | 3  | 2        | 8 |
|               | 5. Management consultants strongly influence the size and scope of the market they serve.      | 2     | 10 | 1        | 5 |
|               | 6. Clients in the private sector are more demanding.   | 1     | 5  | 5        | 6 |



UNIVERSITY OF BATH  
School of Management

Professional Services (Management Consulting) Firms

ATTITUDE SURVEY ON OPERATIONAL INFLUENCES

|  |  | Agree |    | Disagree |    |
|--|--|-------|----|----------|----|
|  | STATEMENTS   | 1     | 2  | 3        | 4  |
|  | 7. Time spent in the market on business development cannot be controlled.  |       | 2  |          | 11 |
|  | * 8. Work in the public sector is less satisfying, professionally.   | 2     | 11 | 2        | 1  |
|  | <u>B. STRATEGIC PLANNING</u>   |       |    |          |    |
|  | V009   |       |    |          |    |
|  | 1. It is not possible to plan beyond an 18 month timeframe.  | 1     | 2  | 1        | 11 |
|  | 2. A consulting firm's planning relates largely to manpower - what skills to recruit.                                | 1     | 10 | 1        | 5  |
|  | 3. Scope of practice evolves; consultants cannot create a market where none exists.                                  | 2     | 6  | 2        | 7  |
|  | 4. Growth targets are something to aim for, not something which can be planned.                                      | 2     | 7  | 1        | 7  |
|  | 5. Continued growth is essential to survival.  | 2     | 6  | 4        | 6  |
|  | 6. Planning to enter a market segment is one thing; achieving it is a matter of luck.                                |       | 1  |          | 12 |
|  | * 7. Changes in societal attitudes; environment, minorities, resources; have little effect on a consulting practice. | 1     | 4  | 3        | 8  |
|  | <u>C. NEW BUSINESS DEVELOPMENT</u>   |       |    |          |    |
|  | V016   |       |    |          |    |
|  | 1. Developing new business is opportunistic; reactive rather than proactive.   |       | 5  | 3        | 10 |



## UNIVERSITY OF BATH

## School of Management

## Professional Services (Management Consulting) Firms

## ATTITUDE SURVEY ON OPERATIONAL INFLUENCES

|      | STATEMENTS   | Agree |    |   |   | Disagree |  |
|------|--|-------|----|---|---|----------|--|
|      |  | 1     | 2  | 3 | 4 |          |  |
|      | *2. It is rarely possible to create an opportunity where a need does not exist.  | 2     | 11 | 1 | 3 |          |  |
|      | 3. Few professionals have an aptitude for business development.  | 2     | 7  | 1 | 8 |          |  |
|      | 4. Developing new business with audit clients is just as difficult as with non-audit clients.  | 5     | 4  | 4 | 2 |          |  |
|      | *5. On average, the lead time between initial contact and confirmed contract is more than 3 months.  | 3     | 6  | 2 | 7 |          |  |
|      | 6. A consulting firm can have too much public sector business as against private sector.   | 8     | 6  | 2 | 1 | 1        |  |
|      | 7. Community involvement is essential to new business development.   | 2     | 4  | 5 | 5 | 2        |  |
|      | 8. Repeat business (with one client) occurs frequently.  | 7     | 9  | 1 | 1 |          |  |
|      | <u>D. ORGANIZATION STRUCTURE</u>   |       |    |   |   |          |  |
| V024 | 1. Professionals do not take kindly to formal hierarchical structure.  | 4     | 7  |   | 7 |          |  |
|      | 2. Professionals are better grouped organizationally by professional discipline than by industry grouping.                                 | 4     | 9  | 3 | 2 |          |  |
|      | *3. Highly centralized control is more effective than widely decentralized management.   | 2     | 5  | 2 | 6 | 3        |  |
|      | 4. A professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives. |       | 15 | 1 | 2 |          |  |

## UNIVERSITY OF BATH

## School of Management

## Professional Services (Management Consulting) Firms

## ATTITUDE SURVEY ON OPERATIONAL INFLUENCES

Agree

Disagree

| STATEMENTS                       |  | 1 | 2  | 3 | 4  |
|----------------------------------|--|---|----|---|----|
| 5.                               | Professionals measure their own performance by the % of their time charged to clients.                               | 1 | 8  | 1 | 7  |
| * 6.                             | Management consultants are more critical of management and management style than their opposite numbers in industry. | 5 | 6  | 3 | 4  |
| E. KEY SUCCESS FACTORS/MEASURES  |  |   |    |   |    |
| V030                             |  |   |    |   |    |
| 1.                               | The % of available time charged to clients is the most significant measure of success.                               | 3 | 4  | 3 | 5  |
| * 2.                             | The % of standard rates realized is important but not critical.  | 1 | 6  | 3 | 6  |
| 3.                               | Share of market (CAMC) exerts a strong influence on planning in a firm.  | 1 | 1  | 3 | 11 |
| 4.                               | The success rate in developing new business is closely monitored.  | 4 | 7  | 1 | 5  |
| 5.                               | The profitability of a consulting practice is something that happens and cannot be planned.                          |   |    | 1 | 11 |
| 6.                               | The cost of professional staff cannot easily be changed as volume of business changes.                               | 1 | 13 |   | 3  |
| 7.                               | Rate of growth in chargeable hours is an important indicator of performance.   | 4 | 14 |   |    |
| F. MANAGEMENT OF HUMAN RESOURCES |  |   |    |   |    |
| V037                             |  |   |    |   |    |
| 1.                               | Turnover of professional staff is critical to the life of a practice.  | 3 | 8  | 3 | 4  |

## UNIVERSITY OF BATH

## School of Management

## Professional Services (Management Consulting) Firms

## ATTITUDE SURVEY ON OPERATIONAL INFLUENCES

|                                   |  | Agree |    | Disagree |      |
|-----------------------------------|--|-------|----|----------|------|
| STATEMENTS                        |  | 1     | 2  | 3        | 4    |
| 2.                                | Performance appraisal is a highly subjective activity.   | 2     | 10 |          | 6    |
| 3.                                | The consultant's morale and attitudes varies directly with his level of client activity; the busier, the better. | 10    | 7  |          | 1    |
| 4.                                | Standards of quality for professional work are highly subjective and not measurable.                             | 1     | 3  | 2        | 9 3  |
| 5.                                | Periodic seminars and extra-mural conferences are needed for staff morale.                                       | 1     | 14 |          | 2 1  |
| 6.                                | Organizational conflict/challenge between professionals is a way of life in a consulting firm.                   | 1     | 5  | 3        | 7 2  |
| 7.                                | Staff scheduling involves "fitting square pegs in round holes" to meet client requirements.                      | 1     |    | 3        | 13 1 |
| G. OPERATIONAL/FINANCIAL CONTROLS |  |       |    |          |      |
| V044                              |  |       |    |          |      |
| 1.                                | Effective management of professional engagements above all else, is the key to success.                          | 5     | 9  |          | 3 1  |
| 2.                                | A certain % of available time must be consciously allocated to business development.                             | 10    | 8  |          |      |
| * 3.                              | Research by and training of professional staff is secondary to meeting existing client commitments.              | 2     | 5  | 4        | 7    |
| 4.                                | The size of work in process and receivables is a measure of success; the bigger, the better.                     |       | 2  | 1        | 7 8  |

UNIVERSITY OF BATH  
School of Management

Professional Services (Management Consulting) Firms

ATTITUDE SURVEY ON OPERATIONAL INFLUENCES

Agree

Disagree

|  | STATEMENTS   | 1             | 2         | 3              | 4                    |
|--|--|---------------|-----------|----------------|----------------------|
|  | 5. It is not possible to measure the volume of proposal activities.<br><br>*6. There is no generally accepted standard of profitability in a consulting firm.<br><br>7. % of standard rate realized is more important than % of available time charged to clients. | <br><br><br>1 | <br><br>6 | <br>2<br><br>6 | 12<br><br>4<br><br>8 |

APPENDIX D

FACTOR ANALYSIS OF ATTITUDE SURVEY

Source: Author

FACTOR ANALYSIS USING THE VARIMAX  
ROTATED FACTOR MATRIX WITH EIGHT FACTORS

In interpreting the data, factor by factor, I have used a cut-off of approximately .5 or more, plus or minus. Set out below using the foregoing approach is the amalgam of statements where correlation exists, factor by factor. The statements set out under each factor have been reworded from those set out in the questionnaire so that they reflect the opinions of the respondents, positively or negatively, relative to the wording used in the questionnaire.

FACTOR 1

The statements which come together under Factor 1 are as follows:

- Work in the public sector is less satisfying professionally.
- It is not possible to plan beyond a 18 month timeframe.
- A consulting firm's planning relates largely to manpower, what skills to recruit.
- Planning to enter a market segment is one thing; achieving it is a matter of luck.
- Changes in societal attitudes; environment, minorities, resources; have little effect on a consulting practice.
- A professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives.
- Professionals measure their own performance by the percentage of their time charged to clients.
- The percentage of chargeable time charged to clients is the most significant measure of success.



- Share of market (CAMC) does not exert a strong influence on planning in a firm.

## FACTOR 2

- Economic conditions are the primary influences on the volume of consulting work.
- Technological change exerts only a minor influence on the scope of practice in consulting.
- Growth targets are something which can be planned.
- Few professionals have an aptitude for business development.
- On average the lead time between initial contact and confirmed contract is more than 3 months.
- A consulting firm is not sensitive to having too much public sector business as against private sector.
- Community involvement is not essential to new business development.
- Highly centralized control is more effective than widely decentralized management.
- The cost of professional staff can easily be changed as volume of business changes.
- Standards of quality for professional work are not subjective and are measurable.

FACTOR 3

- Changes in government have an effect on the consulting market.
- Management consultants strongly influence the size and scope of the market they serve.
- Time spent in the market on business development can be controlled.
- Professionals do not take kindly to formal hierarchical structure.
- Professionals are better grouped organizationally by professional discipline than by industry grouping.
- Staff scheduling involves "fitting square pegs in round holes" to meet client requirements.
- It is possible to measure the volume of proposal activities.

FACTOR 4

- Competition is not any stronger in the public than in the private sector market.
- That scope of practice evolves; consultants cannot create a market where none exists.
- It is rarely possible to create an opportunity where a need does not exist.
- The percentage of standard rates realized is not important and certainly not critical.



- The turnover of professional staff is critical to the life of a practice.
- The consultant's morale and attitudes vary directly with his level of client activity; the busier, the better.

#### FACTOR 5

- Economic conditions are the primary influences on the volume of consulting work.
- Continued growth is not essential to survival.
- Planning to enter a market segment and achieving it is not a matter of luck.
- The percentage of available time charged to clients is the most significant measure of success.
- Performance appraisal is a highly subjective activity.
- Staff scheduling does not involve "fitting square pegs in round holes" to meet client requirements.
- A certain percentage of available time must be conscientiously allocated to business development.
- Research by and training of professional staff is secondary to meeting existing client commitments.

#### FACTOR 6

- Planning to enter a market segment and achieving it is not a matter of luck.

- Management consultants are more critical of management and management style than their opposite numbers in industry.
- Performance appraisal is not a highly subjective activity.
- Periodic seminars and extramural conferences are needed for staff moral.
- Organizational conflict - challenge between professionals is a way of life in a consulting firm.
- Percentage of standard rate realized is not more important than percentage of available time charged to clients.

#### FACTOR 7

- Clients in the private sector are not more demanding,
- Developing new business is opportunistic; reactive rather than proactive.
- On average the lead time between initial contact and confirmed contract is more than 3 months.
- The cost of professional staff can easily be changed as volume of business changes.
- Standards of quality for professional work are not highly subjective and are measurable.

#### FACTOR 8

- Repeat business (with one client) occurs frequently.

- Share of market (CAMC) exerts a strong influence on planning in a firm.
- The success rate in developing new business is closely monitored.
- The consultant's morale and attitudes vary directly with his level of client activity; the busier, the better.
- Effective management of professional engagements above all else is the key to success.

APPENDIX E

FACTOR ANALYSIS OF ALIGNED FIRMS

Source: Author

FACTOR ANALYSIS USING VARIMAX ROTATED  
FACTOR MATRIX WITH EIGHT FACTORS FOR CONSULTING  
PRACTICES ALIGNED WITH PUBLIC ACCOUNTING FIRMS

As with Appendix D, the statements set out below have, where necessary, been restated, positively or negatively, to reflect the view indicated by the measure of correlation (+ or -).

FACTOR 1

- Developing new business is opportunistic; reactive rather than proactive.
- On average the lead time between initial contact and confirmed contract is more than 3 months.
- Repeat business (with one client) occurs frequently.
- Highly centralized control is more effective than widely decentralized management.
- Management consultants are more critical of management and management style than their opposite numbers in industry.
- The percentage of available time charged to clients is the most significant measure of success.
- The cost of professional staff cannot easily be changed as volume of business changes.
- The consultant's moral and attitudes varies directly with his level of client activity; the busier, the better.
- Organizational conflict/challenge between professionals is a way of life in a consulting firm.
- Effective management of professional engagements above all else, is the key to success.

FACTOR 2

- Work in the public sector is less satisfying, professionally.
- Continued growth is not essential to survival.
- Changes in societal attitudes; environment, minorities, resources; have little effect on the consulting practice.
- A professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives.
- Rate of growth in chargeable hours is not an important indicator of performance.
- Percentage of standard rate realized is more important than percentage of available time charged to clients.

FACTOR 3

- Economic conditions are the primary influences on the volume of consulting work.
- Competition is not stronger in the public than in the private sector.
- Turnover of professional staff is critical to the life of a practice.
- Performance appraisal is a highly subjective activity.
- Periodic seminars and extramural conferences are needed for staff moral.

- Staff scheduling does not involve 'fitting square pegs in round holes' to meet client requirements.
- A certain percentage of available time must be conscientiously allocated to business development.
- Research by and training of professional staff is secondary to meeting existing client commitments.
- It is not possible to measure the volume of proposal activities.

#### FACTOR 4

- A consultant firm's planning relates largely to manpower, what skills to recruit.
- Growth targets are something to aim for, not something which can be planned.
- Planning to enter a market segment is one thing; achieving it is a matter of luck.
- Changes in societal attitudes; environment, minorities, resources; have little effect on a consulting practice.
- Share of market (CAMC) does not exert a strong influence on planning in a firm.
- The success rate in developing new business is closely monitored.
- The profitability of a consulting practice is something that happens and cannot be planned.

FACTOR 5

- Management consultants strongly influence the size and scope of the market they serve.
- Clients in the private sector are are not more demanding.
- Time spent in the market on business development can be controlled.
- Developing new business is opportunistic; reactive rather than proactive.
- Developing new business with audit clients is just as difficult as with non-audit clients.
- Professionals do not take kindly to formal hierarchical structure.
- Professionals are better grouped organizationally by professional discipline then by industry grouping.
- The cost of professional staff can easily be changed as volume of business changes.
- There is generally no accepted standard of profitability in a consulting firm.

FACTOR 6

- Changes in government federal/provincial/municipal have no effect on the consulting market.
- A consulting firm's planning relates largely to manpower, what skills to recruit.



- Planning to enter a market segment is one thing; achieving it is a matter of luck.
- Community involvement is essential to new business development.
- Professionals measure their own performance by the percentage of their time charged to clients.
- The size of work-in-process and receivables is a measure of success; the bigger, the better.

#### FACTOR 7

- Scope of practice evolves; consultants cannot create a market where none exists.
- It is rarely possible to create an opportunity where a need does not exist.
- A professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives.
- The percentage of standard rates realized is critical.
- Turnover of professional staff is critical to the life of a practice.
- Standards of quality for professional work are not highly subjective and are measurable.
- Organizational conflict/challenge between professionals is a way of life in a consulting firm.

FACTOR 8

- Technological change exerts a major influence on the scope of practice in consulting.
- It is not possible to plan beyond an 18 month timeframe.
- Most professionals have an aptitude for business development.
- A consulting firm can have too much public sector business as against private sector.

APPENDIX F

QUESTIONNAIRE TO USERS OF CONSULTING SERVICES

Source: Author

School of Business and Economics

Wilfrid Laurier University



Waterloo, Ontario, Canada N2L 3C5. Telephone (519) 884-1970

September 8, 1981

EDear E:

As you know I took advantage of early retirement provisions at ~~XXXX~~ last year, to finish off my working career as an academic. I felt that business students might benefit from my background and experience and I, in turn, might have the satisfaction of their fresh outlook on today's world. My first year in academia has lived up to my expectations.

My purpose in writing is to seek your help through possibly a 1/2 hour discussion about management consultants.

I have undertaken a piece of research into professional service organizations in conjunction with the University of Bath, England. As you might expect I know something about the operation of a management consulting practice. However, my purpose in seeking your help is to obtain the client's viewpoint on the following questions:

1. When do you consider using the services of management consultants, what kind of problems, and under what circumstances?
2. In engaging a firm of management consultants, what selection criteria do you use?
3. During the course of a consulting engagement what kind of progress reporting do you look for?
4. How do you judge the appropriateness of the fees charged?
5. How do you assess the success or otherwise of a consulting engagement?
6. What is your opinion, generally, of management consultants and the role they play in today's business and government activities?
7. What advice would you give to management consulting firms to improve:
  - the quality of their performance?
  - their image?
  - other aspects of their practice?

.../2

Without regard to my past affiliation with ~~the government~~, I am, in the interests of furthering the knowledge of others in this field, seeking a very frank expression of opinion on the foregoing questions. All discussions will be kept in confidence as to who says what. A feedback of the combined opinions from several sources will be provided on request. I would much appreciate a short meeting with you whenever you can fit this into your schedule. I will look forward to hearing from you either directly or through your secretary as to whether you are willing to participate and if so, when would be the most convenient time.

Yours sincerely,

TD/eg

Tom Diggory  
Professor of Business Policy

APPENDIX H

1971 - 1979

1. GROSS REVENUE (\$1971) PER PROFESSIONAL
2. HOURS PER PROFESSIONAL
3. AVERAGE RATE PER HOUR (PROFESSIONAL) IN \$1971

INDEX

1971 - 1979

PAGE NO

|   |          |
|---|----------|
| GROSS REVENUE (\$1971) PER PROFESSIONAL | H-1, H-2 |
| PROFESSIONAL HOURS(000)                 | H-3      |
| CHARGEABLE HOURS PER PROFESSIONAL       | H-4      |
| AVERAGE RATE PER HOUR                   | H-5, H-6 |

## GROSS REVENUE/PROFESSIONAL (EE) (PER ANNUM)

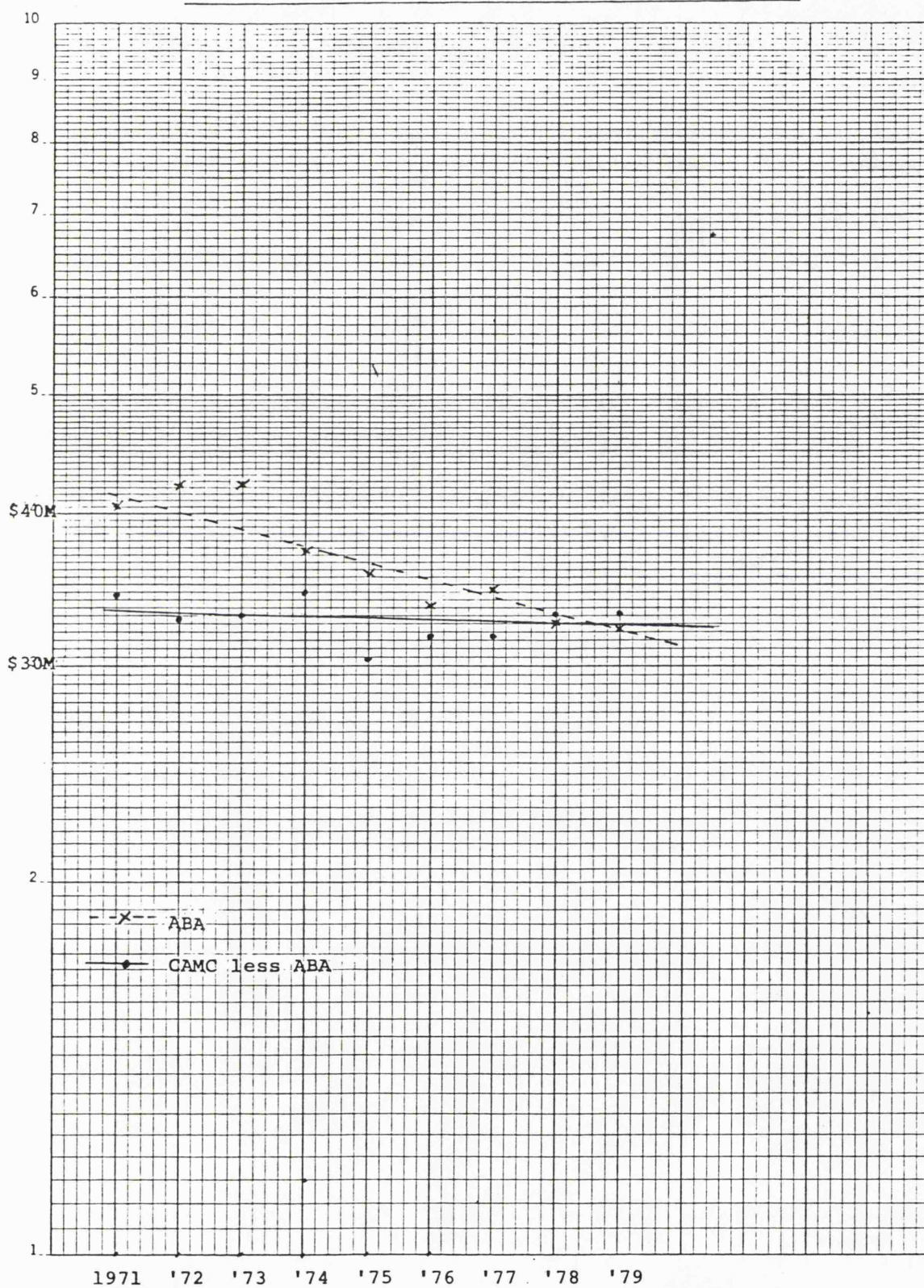
| (Canadian Association of Management Consultants/ABLE, Baker and Associates) |                                |                             |   |                           |                        |                         |   |       |          |
|---|--------------------------------|-----------------------------|---|---------------------------|------------------------|-------------------------|---|-------|----------|
| (CAMC/ABA)  |                                |                             |   |                           |                        |                         |   |       |          |
|   | GROSS<br>BILLINGS<br>(\$1,000) | *DEFLATOR<br>(SERVICE IND.) | GROSS<br>BILLINGS<br>\$ 1971<br>(\$1,000) | # EES<br>AS OF<br>DEC. 31 | GROSS<br>REV/EE<br>ABA | GROSS<br>REV/EE<br>CAMC | GROSS REV/EE<br>CAMC MINUS ABA<br>(\$1,000) |       |          |
|   |                                |                             |   |                           |                        |                         | REV.  | EES   | REV/EE   |
| 1971  | 4,794                          | 100.00                      | 4,794                                     | 118                       | 40,600                 | 35,500                  | \$17,693                                    | 516   | \$34,289 |
| 1972  | 5,368                          | 105.3                       | 5,098                                     | 121                       | 42,100                 | 34,500                  | 17,170                                      | 524   | 32,767   |
| 1973  | 7,175                          | 112.0                       | 6,406                                     | 151                       | 42,400                 | 34,900                  | 18,753                                      | 569   | 32,958   |
| 1974  | 7,818                          | 126.1                       | 6,200                                     | 166                       | 37,300                 | 35,000                  | 23,850                                      | 692   | 34,465   |
| 1975  | 7,079                          | 143.2                       | 4,943                                     | 138                       | 35,800                 | 31,300                  | 22,885                                      | 752   | 30,432   |
| 1976  | 6,908                          | 155.6                       | 4,440                                     | 132                       | 33,600                 | 31,900                  | 22,899                                      | 725   | 31,585   |
| 1977  | 8,268                          | 163.9                       | 5,045                                     | 145                       | 34,800                 | 32,100                  | 26,194                                      | 828   | 31,635   |
| 1978  | 8,274                          | 172.9                       | 4,879                                     | 150                       | 32,500                 | 32,900                  | 32,105                                      | 973   | 33,000   |
| 1979  | 8,500                          | 183.0                       | 4,645                                     | 144                       | 32,300                 | 33,000                  | 36,548                                      | 1,104 | 33,105   |

\*(\$1971 SERVICES INDICATOR)

Sources: Author, derived from Annual CAMC Statistics and the  
Comparable Case Study Firm (ABA) Records.



## GROSS REVENUE (\$1971) PER PROFESSIONAL (Per Annum)



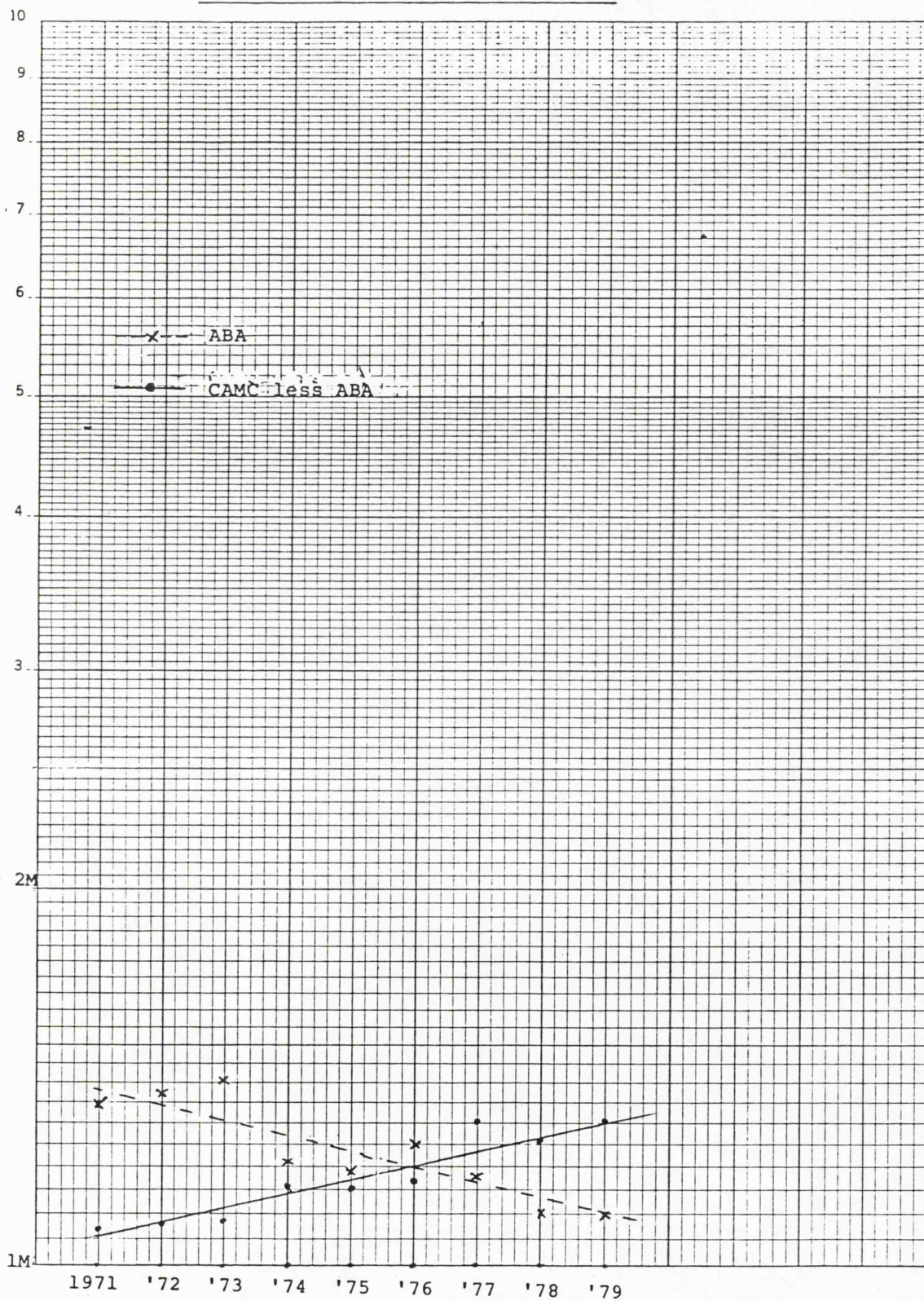
PROFESSIONAL HOURS (000)

|      | <u>ABA</u>           |                     | <u>CAMC LESS ABA</u> |                    | <u>TOTAL CAMC</u>    |                    |
|------|----------------------|---------------------|----------------------|--------------------|----------------------|--------------------|
|      | <u># PROF. (EES)</u> | <u>PROF. HOURS*</u> | <u># PROF. (EES)</u> | <u>PROF. HOURS</u> | <u># PROF. (EES)</u> | <u>PROF. HOURS</u> |
| 1971 | 118                  | 159                 | 516                  | 551                | 633                  | 710 (EST.)         |
| 1972 | 121                  | 166                 | 524                  | 564                | 645                  | 730                |
| 1973 | 151                  | 212                 | 569                  | 619                | 720                  | 831                |
| 1974 | 166                  | 200                 | 692                  | 799                | 858                  | 999                |
| 1975 | 138                  | 165                 | 752                  | 865                | 890                  | 1030               |
| 1976 | 132                  | 165                 | 725                  | 848                | 857                  | 1013               |
| 1977 | 145                  | 171                 | 828                  | 1081               | 973                  | 1252               |
| 1978 | 150                  | 165                 | 973                  | 1221               | 1123                 | 1386               |
| 1979 | 144                  | 158                 | 1104                 | 1436               | 1248                 | 1594               |

\* Taken as 85% of TOTAL HOURS to exclude support staff, except in 1978, 1979 where actual were taken.



# CHARGEABLE HOURS PER PROFESSIONAL (Per Annum)



46 4650

K•E SEMI-LOGARITHMIC 1 CYCLE X 70 DIVISIONS  
KEWTEL & ESSER CO. MADE IN U.S.A.

AVERAGE RATE PER HOURABA VERSUS CAMC (LESS ABA)

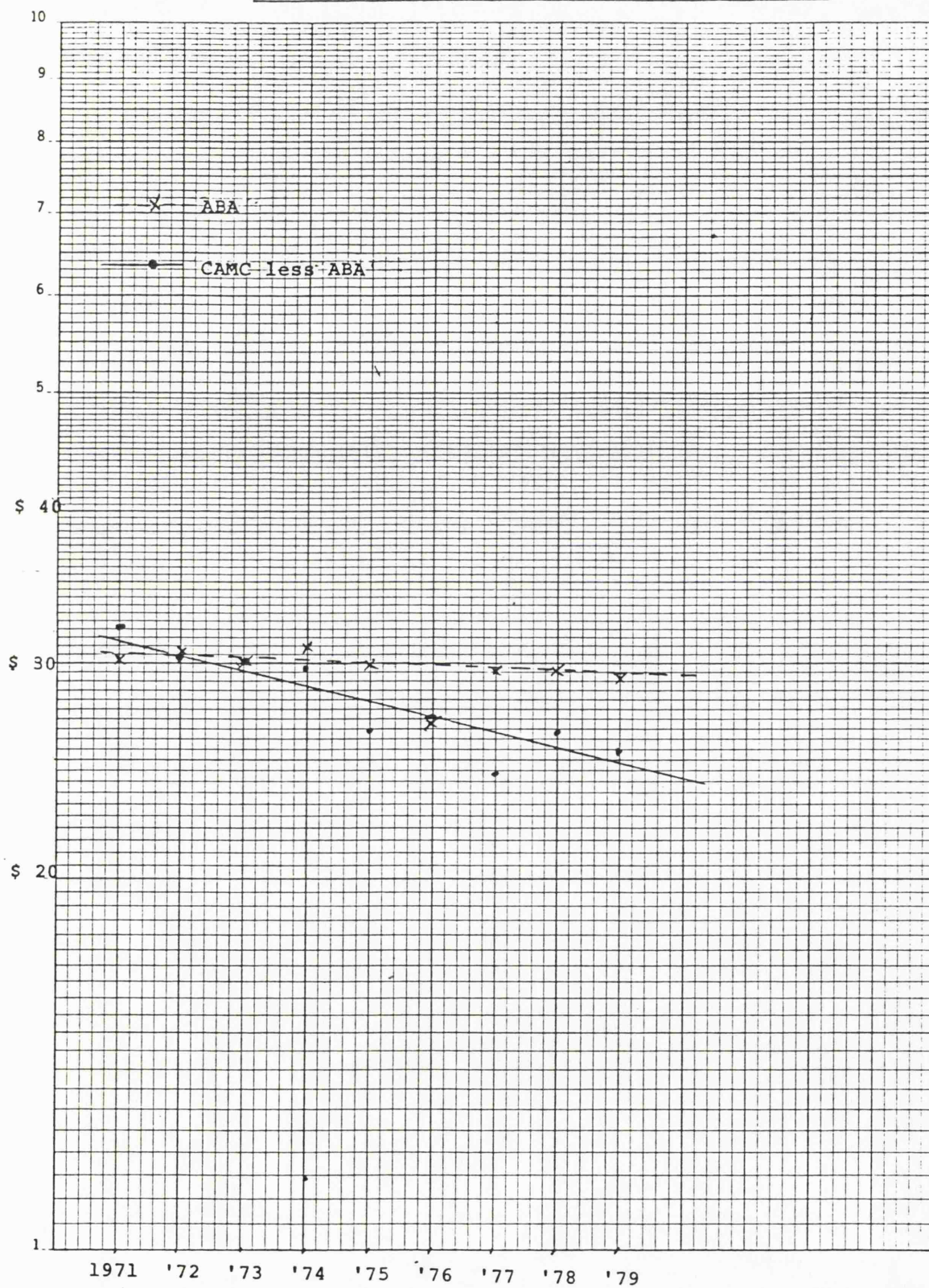
|      | <u>GROSS \$ PER PROFESSIONAL*</u> |                          | <u>HRS. PER PROFESSIONAL</u> |                          | <u>\$ RATE PER HOUR*</u> |                          |
|------|-----------------------------------|--------------------------|------------------------------|--------------------------|--------------------------|--------------------------|
|      | <u>ABA</u>                        | <u>CAMC<br/>LESS ABA</u> | <u>ABA</u>                   | <u>CAMC<br/>LESS ABA</u> | <u>ABA</u>               | <u>CAMC<br/>LESS ABA</u> |
| 1971 | \$40,627                          | \$34,289                 | 1347                         | 1068                     | 30.16                    | 32.11                    |
| 1972 | 42,132                            | 32,767                   | 1372                         | 1076                     | 30.71                    | 30.45                    |
| 1973 | 42,424                            | 32,958                   | 1404                         | 1088                     | 30.22                    | 30.29                    |
| 1974 | 37,349                            | 34,465                   | 1205                         | 1155                     | 31.00                    | 29.84                    |
| 1975 | 35,819                            | 30,432                   | 1196                         | 1150                     | 29.95                    | 26.46                    |
| 1976 | 33,636                            | 31,585                   | 1250                         | 1170                     | 26.91                    | 27.00                    |
| 1977 | 34,793                            | 31,635                   | 1179                         | 1306                     | 29.51                    | 24.22                    |
| 1978 | 32,527                            | 33,000                   | 1100                         | 1255                     | 29.57                    | 26.29                    |
| 1979 | 32,257                            | 33,105                   | 1100                         | 1301                     | 29.32                    | 25.45                    |

\* \$1971



## AVERAGE RATE PER HOUR (PROFESSIONAL) IN \$ 1971

46 4650

K·E SEMI-LOGARITHMIC 1 CYCLE / 70 DIVISIONS  
KEUFFEL & ESSER CO. MADE IN U.S.A.

APPENDIX I

SELECTED SIGNIFICANT VARIABLES

'T' TEST RESULTS

SELECTED SIGNIFICANT VARIABLES

INDEX

PAGE NO.

BY SIZE OF FIRM

I-1

BY EXPERIENCE OF PRACTITIONER

I-2

BY AFFILIATION (PUBLIC ACCOUNTING OR INDEPENDENT)

I-3, I-4

'T' TEST RESULTS

| SIZE OF FIRM |   | Group 1 |         | Group 2 |         | T VALUE | SIGNIFICANCE |
|--------------|---|---------|---------|---------|---------|---------|--------------|
| VARIABLE     |   | ≤ 90    | N = 8   | > 90    | N = 10  |         |              |
|              |   | MEANS   |         |         |         |         |              |
|              |   | GROUP 1 | GROUP 2 | GROUP 1 | GROUP 2 |         |              |
| A1           | Economic conditions are the primary influences on the volume of consulting work.                    | 2.38    | 3.80    | -3.55   | .003    |         |              |
| A6           | Clients in the private sector are more demanding.   | 2.63    | 3.40    | -1.62   | .125    |         |              |
| B4           | Growth targets are something to aim for, not something which can be planned.                        | 3.38    | 2.50    | 1.56    | .138    |         |              |
| D1           | Professionals do not take kindly to formal hierarchical structure.                                  | 3.00    | 2.20    | 1.39    | .184    |         |              |
| F1           | Turnover of professional staff is critical to the life of a practice.                               | 2.00    | 2.80    | -1.71   | .107    |         |              |
| F4           | Standards of quality for professional work are highly subjective and not measurable.                | 3.13    | 3.90    | -1.47   | .161    |         |              |
| G2           | A certain percent of available time must be consciously allocated to business development.          | 1.25    | 1.60    | -1.51   | .150    |         |              |
| G3           | Research by and training of professional staff is secondary to meeting existing client commitments. | 2.38    | 3.30    | -1.99   | .065    |         |              |

8/50 possible tests were significant at the .20 level or better.

Source: Author - Computer Analysis



'T' TEST RESULTSEXPERIENCE - Years

|         |      |       |
|---------|------|-------|
| Group 1 | ≤ 15 | N = 9 |
| Group 2 | > 15 | N = 9 |

VARIABLE

|    |   | <u>MEANS</u>   |                | <u>T VALUE</u> | <u>SIGNIFICANCE</u> |
|----|---|----------------|----------------|----------------|---------------------|
|    |   | <u>GROUP 1</u> | <u>GROUP 2</u> |                |                     |
| A6 | Clients in the private sector are more demanding.   | 2.67           | 3.44           | -1.64          | .121                |
| B3 | Scope of practice evolves; consultants cannot create a market where none exists.  | 2.33           | 3.56           | -2.43          | .027                |
| C2 | It is rarely possible to create an opportunity where a need does not exist.   | 1.89           | 3.00           | -2.44          | .027                |
| D4 | A professional management consultant is more concerned with keeping a client happy than achieving his firm's organizational objectives. | 2.00           | 2.56           | -1.89          | .077                |
| D5 | Professionals measure their own performance by the percentage of their time charged to clients.   | 2.56           | 3.33           | -1.47          | .162                |
| E2 | The percentage of standard rates realized is important but not critical.  | 3.50           | 2.56           | 1.87           | .081                |
| G3 | Research by and training of professional staff is secondary to meeting existing client commitments.                                     | 2.44           | 3.33           | -1.87          | .080                |
| G6 | There is no generally accepted standard of profitability in a consulting firm.  | 4.00           | 3.11           | 1.51           | .150                |

8/50 possible tests were significant at the .20 level or better.

'T' TEST RESULTS

| VARIABLE | AFFILIATION  | MEANS  |         | T VALUE | SIGNIFICANCE |
|----------|--|--|---------|---------|--------------|
|          |  | GROUP 1  | GROUP 2 |         |              |
|          |  | Group 1 - affiliated - 11<br>Group 2 - independent - 7 |         |         |              |
| A3       | Competition is stronger in the public than in the private sector market.   | 1.91   | 2.86    | -2.29   | .036         |
| B4       | Growth targets are something to aim for, not something which can be planned.   | 3.27   | 2.29    | 1.76    | .098         |
| C2       | It is rarely possible to create an opportunity where a need does not exist.  | 2.82   | 1.86    | 2.19    | .043         |
| D2       | Professionals are better grouped organizationally by professional discipline than by industry grouping.              | 2.45   | 1.71    | 1.85    | .085         |
| D6       | Management consultants are more critical of management and management style than their opposite numbers in industry. | 1.91   | 3.00    | -2.19   | .043         |
| E2       | The percentage of standard rates realized is important but not critical.   | 2.73   | 3.50    | -1.40   | .181         |
| F2       | Performance appraisal is a highly subjective activity.   | 2.82   | 2.14    | 1.38    | .188         |
| F4       | Standards of quality for professional work are highly subjective and not measurable.                                 | 3.91   | 3.00    | 1.73    | .103         |

'T' TEST RESULTS

|    | <u>AFFILIATION</u>   | Group 1 - affiliated - 11 |                | <u>T VALUE</u> | <u>SIGNIFICANCE</u> |
|----|--|---------------------------|----------------|----------------|---------------------|
|    |  | Group 2 - independent - 7 |                |                |                     |
|    |  | <u>MEANS</u>              |                |                |                     |
|    |  | <u>GROUP 1</u>            | <u>GROUP 2</u> |                |                     |
| G5 | It is not possible to measure the volume of proposal activities.               | 4.18                      | 4.57           | -1.76          | .097                |
| G6 | There is no generally accepted standard of profitability in a consulting firm. | 3.00                      | 4.43           | -2.95          | .009                |

10/50 possible tests were significant at the .20 level or better.

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THE DYNAMICS OF PROFESSIONAL SERVICES ORGANIZATIONS

A Management Consulting Perspective

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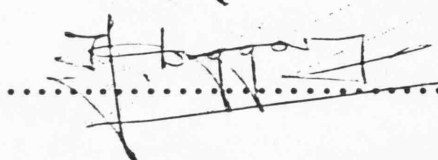
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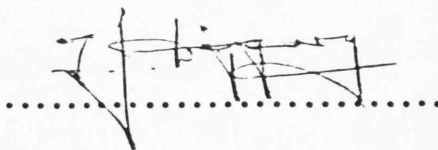
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THE DYNAMICS OF PROFESSIONAL SERVICES ORGANIZATIONS

A MANAGEMENT CONSULTING PERSPECTIVE

VOLUME II

(Strictly Confidential)

INDEX

PAGE NO.

PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONS (Continued)

VIII - THE MANAGEMENT CONSULTING FIRM: CASE STUDY

|                                     |         |
|-------------------------------------|---------|
| Able, Baker and Associates (ABA)    | VIII-1  |
| Management Consultants              |         |
| History of the Organization         | VIII-1  |
| Professional Constraints            | VIII-10 |
| Organizational Advantages           | VIII-12 |
| External Characteristics/Influences | VIII-14 |
| Growth and Share of Market          | VIII-15 |
| Total Firm                          | VIII-15 |
| Regional Performance                | VIII-16 |
| Functional Performance              | VIII-17 |
| Growth Characteristics              | VIII-18 |
| Sectoral                            | VIII-19 |
| The Market                          | VIII-27 |
| Strategic Planning                  | VIII-27 |
| Business Development                | VIII-28 |
| Internal Characteristics/Influences | VIII-29 |
| Organizational Structure            | VIII-29 |
| Management of Human Resources       | VIII-34 |
| Organizational Developments         | VIII-34 |
| Management of the Practice          | VIII-43 |
| Summary                             | VIII-47 |
| Key Success Measures/Controls       | VIII-50 |
| Strategic (Performance Indicators)  | VIII-52 |
| Operational (Financial)             | VIII-55 |
| Expense Analysis                    | VIII-55 |
| Profitability                       | VIII-55 |
| -Total Firm                         | VIII-56 |
| -Regional                           | VIII-57 |
| Operational (General)               | VIII-62 |
| Conclusion                          | VIII-69 |

EXHIBITS

| <u>No.</u> | <u>Title</u>                                    |         |
|------------|---|---------|
| VIII-1     | Chronology of the Firm                          | VIII-3  |
| VIII-2     | Organization Chart                              | VIII-5  |
| VIII-3     | ABA Market Share of Total CAMC Chargeable Hours | VIII-26 |
| VIII-4     | ABA - Total Expense Analysis                    | VIII-55 |

APPENDIX

|   |                                |
|---|--------------------------------|
| G | ABA Expense Analysis by Region |
|---|--------------------------------|

PART 2 DATA SOURCES, ANALYSES AND CONCLUSIONS (CONT'D)VIII - THE MANAGEMENT CONSULTING FIRM: CASE STUDYABLE, BAKER AND ASSOCIATES (ABA)  
MANAGEMENT CONSULTANTS

The first part of this chapter describes the history, organizational development, and performance of a professional services (management consulting) firm whose name has been disguised. Its history dates from 1954 while the performance used for purposes of this research is for the 10 year period, 1971 - 1980. The remainder of the chapter focuses on the external and internal influences on the firm's performance addressing all six research questions from the firm's perspective.

HISTORY OF THE ORGANIZATION

The firm of Able, Baker, Charles & Co. (co-partners) is an international firm of chartered accountants in the practice of audit, accounting, and tax in many countries worldwide. The name is used under license by the separate firms operating in each country, which license can be revoked by the senior partnerships in the family of firms at the international level where quality and standards fall below an acceptable level. The organization is typically referred to as a family of firms and the practices in individual countries, particularly those considered to be developed rather than developing countries, are owned and operated by nationals of those countries. Each firm has the partnership form of organization with unlimited liability. There is an umbrella organization at the international

level referred to as Able Baker International hereafter referred to as ABI. The firm in each country is referred to hereafter as ABC & Co.

ABC & Co., chartered accountants, within the context of this study, is the Canadian firm, is a member of the world-wide family of firms and is governed by standards of professional conduct and ethics, subscribed to by all members of the chartered accounting profession in Canada and prescribed by the Canadian Institute of Chartered Accountants and endorsed as appropriate for its partners resident in Canada by the international firm.

In 1953 in Canada, ABC & Co. chartered accountants, was seriously considering broadening its scope of services to its audit clients by the addition of supplementary management services which would be closely related, functionally speaking, to the disciplines practised by the chartered accounting profession. Accordingly, in 1954, ABC & Co. set up a management controls department with a partner, a chartered accountant, in charge. It was staffed initially by four individuals in addition to the partner in charge, all of whose backgrounds related directly to the profession of chartered accountancy but whose special interests and to some extent backgrounds related to the operational aspects of finance, accounting and control.

ABC & Co. therefore, is the parent organization, ABC/MCD initially, subsequently XAB & CO. and finally ABA, are the various designations under which management consulting was practiced over the period of the study by the firm overall. In summary, a gross oversimplification of the general organizational environment is that the



| No. of<br>Personnel | Scope of Practice  | Organization<br>Structure                         | Comments   |
|---------------------|--|---|--|
| 1954-1958           | Information Systems<br>Clerical Work Simplification<br>Data Processing   | 1 office  | Clients from audit   |
| 1959-1967           | Executive Search<br>Marketing<br>Organizational Development<br>Operations Engineering<br>Computer Systems & Services                   | 2 < 6 offices<br>Regional/Divisional<br>Hierarchy | Increasing number of<br>non-audit clients<br>Average assignment<br>2-4 weeks   |
| 1968-               | Management Services<br>Transportation<br>Health Care<br>Actuarial Services<br>Employee Benefits<br>Computer Implementation<br>Projects | 6 offices   | Merger with XYZ Ltd.<br>New firm XAB & Co.<br>separate subsidiary<br>partnership to ABC & Co.<br>Engineering and manage-<br>ment science skills<br>added |
| 1969-1973           | Urban Planning<br>Airport Planning<br>Road/Rail Studies<br>Economic Planning Studies   |   | Architectural skills<br>added<br>Large projects 3-6<br>months<br>Multidiscipline approach<br>Consortium arrangements                                     |
| 1974-               | Curtailment of Urban Planning<br>and related studies   |   | Loss of architectural and<br>some engineering skills<br>Demerger of key personnel<br>from 1968 merger  |
| 1975                |  | Decentralization                                  | Change of name ABA   |
| 1976-1980           |  |   |  |
| 1979                |  | Further Decentral-<br>ization                     | Some reorganization  |
| 1980-1981           |  | Centralization                                    | Major reorganization   |

Source: Author - Taken from Case Study Firm's (ABA) Records.

policies and practices of a multi-disciplinary management consulting practice are being determined by auditors and subject to the rules of professional conduct, discipline and ethics which govern the profession of auditing. In the parlance of the management consulting services sector a firm such as ABA is referred to as an aligned firm in that it is part of an auditing firm's practice.

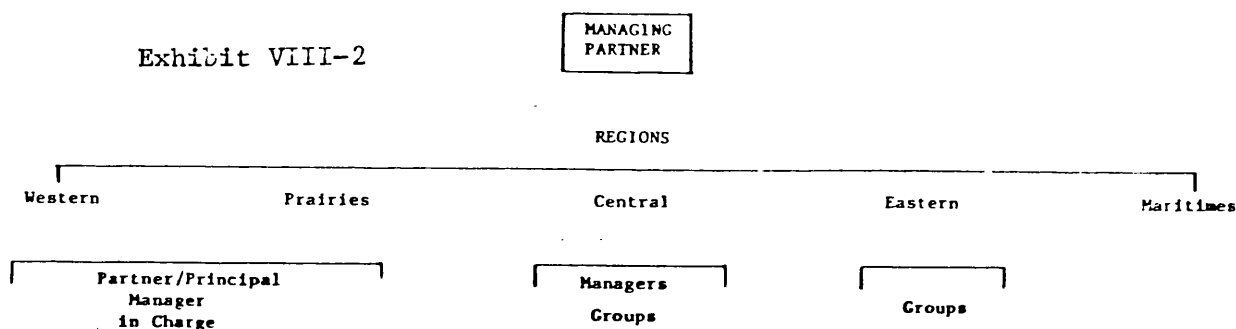
By contrast, there are the non-aligned firms who are independent of such an affiliation and are therefore unaffected by such constraints as might be perceived to exist in the rules of professional conduct and ethics pertaining to chartered accountants. The significance of this will be explored later, however, it is important to understand that each of the professions, medical, legal, accounting, engineering, actuarial, and other quasi professional groups breed their own separate and distinct cultures. This is not to say that all members of a profession look alike or speak alike but rather that they have distinct ways of thinking about things and looking at things and often have a distinctive way of expressing themselves so that there is a degree of uniformity in the end result as to how a profession behaves toward the general public and toward clients as they discharge their professional responsibilities. These behavioural characteristics exert an influence which underpins everything which is described in this case study.

ABC management controls department (ABC/MCD) was set up at the outset as a profit centre and was profitable from the outset. Set out in Exhibit VIII-1, is a chronology of significant events occurring in this practice over the ensuing 26 years.

During the years 1954-1958 the staff increased from 5 to 12, operated from 1 office, served primarily audit clients in advisory services fields closely related to the audit discipline namely, information systems, clerical work simplification and data processing.

The period 1959-1967 saw a dramatic increase in advisory services or consulting activity with growth in personnel from 13 to 65, an ever expanding scope of practice as illustrated above, an increasing number of non-audit clients, and a gradual increase in the number of offices across the country where consulting services were available to clients. The original office remained the largest in terms of number of personnel and served as a pool for skills and resources in less frequent demand in other offices. Organizationally, ABC/MCD (now the management consulting department) moved to a branch office or regional arrangement with a managing partner located in the main office who had reporting to him regional partners both in the main office and in the branch offices as these were opened. In addition, in order to accommodate the ever expanding scope of practice, personnel, mainly in the originating office, were divisionalized into groups of professionals having similar skills namely, behavioural, systems, executive search, engineering and other. As with branch or regional offices, so with the divisions or groups, these were set up as separate profit centres all with 'bottom line' responsibility. A simplified sketch of the organizational arrangement in the middle 1960's is set out overleaf.

Exhibit VIII-2



Source: Author - Personal Knowledge.

Each of the regions was headed by a partner or principal or manager dependent upon the size and significance of the region and likewise primarily in the central region and to some lesser extent in the eastern region, the two largest regions, the groups were headed either by partners or most commonly by managers. Organizational developments and their significance in the history of the firm will be dealt with in the next section of this chapter; suffice it to say that, at this juncture, 1959-1967 was a period of growth and change in the practice and organizationally this was accommodated structurally in the generally accepted traditional manner from 'one office, few products' through to 'several offices, many products' with branch and divisional arrangements. A matrix type organization starts to emerge. This will be discussed further in the next section.

1968 was a milestone in the history of ABC/MCD. For some time there had been a growing recognition of the need to add additional skills and capabilities to the practice not only to be able to expand the scope of services to clients but also to enrich the mix of professionals addressing client problems. The main focus of attention at this time was on the growing market requiring operations research and management science skills. The debate which had lasted some two or three years was whether the practice was able to develop its own skills

through recruitment or whether to search for, and through merger with another organization, acquire such skills. Attempts had been made to inject an engineering capability into the practice and indeed a small operations engineering practice did exist but its success over the preceding five years had been mixed and its complement of staff had changed several times. The difficulty seemed to have been to 'graft on' and gain acceptance of engineers by a comparatively large group of professionals from other disciplines notably finance and accounting, data processing, general management and marketing (organizational behaviorists). In 1967 the managing partner of ABC/MCD met with the managing director of XYZ Ltd. and the search for a merger partner was over. XYZ Ltd. was approximately the same size as ABC/MCD namely 65 professionals in each organization. There were approximately the same number of professionals in the management group of each organization, namely 10-12. XYZ Ltd. was largely staffed by management scientists, operations researchers, and engineers, primarily civil, although there was a data processing group of some 8-10 individuals who concentrated mainly on large 'turn-key' computer installations. There was also a Computer Service Bureau attached to the company which was a separate profit centre and processed not only the work of the XYZ Ltd. consulting group but also undertook service contracts for other clients.

The heads of both organizations felt that they had much to gain by merging; ABC/MCD needed new skills to expand its scope of practice to enrich its professional group while XYZ Ltd. at that stage in its own history was feeling the need for the kind of accounting and control disciplines which would improve and stabilize its 'bottom line'. Accordingly, on January 1, 1968 a separate, subsidiary partnership

was formed, X, Able, Baker & Co. (XAB), into which the staff of ABC/MCD and XYZ Ltd. were inducted. The practice of XYZ Ltd. was in fact purchased by ABC & Co. the main Canadian partnership of chartered accountants and the subsidiary partnership set up as a mechanism to enable the management group of that partnership to be made partners, not of the main firm but of the subsidiary partnership. The organizational implications and rationale for this move is examined in more detail in the next section. The new partnership began its life with approximately 20 partners and 110 professional staff with the former managing partner of ABC/MCD becoming the managing partner of the new firm and the former managing director of XYZ Ltd. becoming the deputy managing partner. Other developments in the organizational hierarchy as well as other ranks introduced will again be covered in the next section. The implications of this merger were significant not only in the marketplace, but also internally in that the scope of practice was significantly expanded over-night, as were the nature and types of engagements being handled. In this latter respect, the average duration of projects handled by ABC/MCD had been from two to four weeks with a rare but significant exception once or twice a year, whereas XYZ Ltd. had typically handled in the normal course of business, projects of three to six months duration with the odd exception lasting over a year and sometimes much longer.

1969 - 1973 was an era of rapid growth in management consulting in the domestic market and coincided with the enlarged scope of XAB & Co. Many new and large engagements, particularly those requiring engineering skills and planning capabilities emerged which resulted in burgeoning growth for the practice during this five year period. There was

opportunity for a multidisciplinary approach to a number of projects and beyond this the need for and acceptance of consortium arrangements with other firms having disciplines outside of those of XAB & Co. to handle extraordinarily large projects. This was a period of dynamic change and interesting organizational repercussions which will be discussed in the next section. Several organizational developments occurred which are worthy of note at this point in the report. In 1968 shortly after the merger it was concluded that a Computer Service Bureau should not be part of a professional organization and this was 'spun off'. Early in 1969 the computer group who had been with XYZ Ltd. handling large 'turn-key' projects decided that it would leave the firm and set up in practice independently. Late in 1969 the deputy managing partner, formerly managing director of XYZ Ltd. decided that the environment of XAB & Co. was too confining and not such as to enable him to move into other entrepreneurial activities and he left the firm. In 1970 the managing partner of XAB & Co. was elected the managing partner of ABC & Co. and therefore became senior partner of the total Canadian organization. His place was taken by the regional partner of one of the outlying regions and finally during this period the former managing partner of a competitive firm of some consequence joined XAB & Co. and an architect also joined and was made a partner to spearhead some of the emerging projects in airport and urban planning.

In 1974 a large number of the more senior individuals who had formerly been with XYZ Ltd. and were engineers, planners, and architects, decided that they wished to leave the firm as a group and set up in practice independently. The case is explored in the next section but the primary reason was a growing concern by ABC & Co.

that the increasing emphasis on the practice of architecture beyond the planning stage was inappropriate for a firm of management consultants associated with a firm of chartered accountants. Accordingly, this group of key personnel demerged and the scope of practice was scaled down in certain respects although work continued in most areas of the expanded scope of practice but with reduced emphasis.

The year after this 'demerger' the managing partner of XAB & Co. resigned choosing to pursue certain entrepreneurial interests not consistent with the practice of management consulting. Coincident with this change the parent firm ABC & Co. decided to change the name of its subsidiary partnership of management consultants from XAB & Co. to Able, Baker and Associates (ABA).

With the departure of the managing partner of XAB & Co. and the change of name to ABA the senior partner of ABC & Co., formerly managing partner of the management consulting firm concluded that the consulting firm's offices should be decentralized with each reporting directly and separately to the parent organization ABC & Co. All six consulting offices, however, while maintaining a separate identity as profit centres, were still consolidated as a division of the parent firm and their activities collectively were coordinated at the head office level of ABC & Co. by an executive partner. The structure of the firm and the roles and responsibilities of the individuals had therefore changed and this is dealt with more fully in the next section.

1976 - 1980 saw little change in the size, structure, or scope of



practice of ABA. There was increasing emphasis on quality of work and towards the end of the period there was further centralization and some reorganization which essentially was 'shifting the players' to accommodate younger partners.

Finally, at the end of the decade and comparatively recently there was a move to incorporate the consulting practices in individual offices with the audit, tax, and insolvency practices in those offices with the managing partner of each audit office having ultimate responsibility. This essentially was the ultimate form of decentralization and consistent with an emerging philosophy of the international firm of offering from each major office a 'total service' to its clients. However, this move lasted 12 months only and the consulting practice as a whole with its several offices has now been centralized once more under the responsibility of a managing partner who reports to the senior partner of ABC & Co. A major reorganization and shifting of emphasis has been necessary and this is again explored in more detail in the next section.

#### Professional Constraints

As with most professions, the accounting profession is prohibited from promoting its services by blatant advertising or by 'cold calls' (unsolicited meetings with prospective clients). Moreover, auditors (chartered accountants) must be scrupulous about independence in their dealings with clients and be free of conflict of interest in the handling of client affairs. These same rules of conduct carry over to their management consulting departments or subsidiary firms practicing management consulting which has the effect of constraining certain consulting activities which are otherwise permissible

for the non-aligned firms. Examples of the operation of these constraints are as follows:

- Aligned firms cannot advertise the various types of consulting services which they offer although the rules about such advertising are now under review.
- If an aligned consulting firm, by ethical means, has established a contact with a non-audit client, such firm is obliged to advise that client's auditor who might reasonably be expected to attempt to involve his own consulting group.
- If, in Executive Search, an employee of an audit client has applied for a position, his application must be handled with great care since the Executive Search arm of an aligned consulting practice must not fall into the 'head hunter' category.
- Employees at the management level of the consulting practice of an aligned firm are prohibited together with members of their families from holding investments in the firm's audit clients, specifically to preserve independence.
- The consulting arm of an auditing firm must be quite careful in the selection of assignments it will handle against the possibility that such assignments might influence the policies and

management of an audit client such that the audit partner cannot avoid conflict of interest.

- In dealing with an audit client, the consulting arm of the firm must be alert to the possibility of loss of independence or possible conflict of interest, as it undertakes engagements with other audit clients in the same industry i.e. banking.
- In the practice of personnel services the consulting arm of the audit firm must be extremely careful in the handling of employee relations problems and particularly those involved in union negotiations to avoid conflict of interest.

These and other examples indicate the sensitivity of the relationship existing not only between the audit partner and the client and the consulting firm and the same client but also between the audit partner and the consulting partner.

#### Operational Advantages

As against the foregoing constraints there are obvious advantages for a consulting organization which is aligned with and controlled by a firm of auditors. The most obvious advantage is that the consulting firm starts with an established list of potential clients for consulting services. Other advantages include the following:

- background information on all such clients

- 'an inside track' in securing consulting engagements
- a continuing relationship flowing from confidence in the firm
- the reputational and financial strength of the audit firm as a bulwark against the vicissitudes of the more volatile consulting market
- wise counsel and a second opinion on difficult assignments particularly in the financial area from audit partners of long experience
- a wide range of potential contacts in the business and social communities with whom audit partners have been associated over a number of years which can be exploited ethically to develop new business.

Experience tends to indicate that the foregoing advantages at least offset, if not outweigh, the constraints imposed by a single profession, chartered accounting, over the other professions in practice in an aligned firm. Moreover many, if not most, of the standards of conduct and ethical constraints observed by auditors and accountants are in fact incorporated in the standards of professional engineers, actuaries, and the quasi professionals and also in the standards accepted and applied by the Canadian Association of Management Consultants to which most of the aligned and non-aligned consulting firms of consequence belong.

## EXTERNAL CHARACTERISTICS/INFLUENCES

In the last section of the preceding chapter (Chapter VII) I summarized the results of the research based on the six research questions arising from the Literature Review (Chapter IV) and the Industry Survey - Statistical Analysis (Chapter V), Attitude Survey of Industry Leaders (Chapter VI), and Interviews with Clients (Chapter VII). By reference to these research results I now propose in this chapter to address the research questions using the management consulting firm as a case study, comparing where possible my findings with the evidence gathered from the previous four sources of information.

### The Market (Research Question No. 1)

In Chapter V of this report I referred to the Canadian Association of Management Consultants (CAMC) as consisting of 19 member firms, one of which is ABA. I commented that it seemed probable, in the opinion of the member firms, that CAMC collectively accounted for some 60% of the management consulting market in Canada. The remaining 40% might be variously attributed to overseas firms being engaged to handle isolated engagements; by the faculties of universities undertaking certain research work of a management consulting nature; and also by sole practitioners or small firms, not members of CAMC because they do not wish to be or because their scope of practice is so specialized as not to qualify as members of the Association. For purposes of this research the revenue reported by the 19 member firms of CAMC is assumed to be the market for purposes of measuring the performance of ABA. The period of particular interest in this report is the '70's and the results are available for the eight years 1971 - 1978, a period which encompasses the market and organizational shifts described in the preceding section.

Illustrated in the Exhibit V-5, is a summary of gross billings of the Association and ABA and information on the total professional staff of member firms of CAMC as well as the percentage of the total market enjoyed by ABA. To illustrate, in 1973 CAMC revenue was approximately 27 million dollars and professional staff of all member firms totaled 720. ABA's gross billings or revenue in that same year approached 9 million dollars and its share of the CAMC market was approximately 24%. Appendix A of this report is a set of exhibits which analyzes gross billings by geographic region following the organizational pattern of ABA as described above and Appendix B analyzes the total results by function representing the skill groupings and areas of practice in the firm across all regions, again measured against comparable data of all the member firms of CAMC. A comparative analysis in general terms will be made of these results in a later section of this chapter.

#### Growth and Share of Market

This will be reviewed under three sub-headings below; for the total firm, by region, and by function.

##### Total Firm

In the exhibit appearing earlier where the gross billings of the firm are compared to those of CAMC it is evident that the firm's growth from earlier years continues to a peak in 1973 when ABA enjoyed approximately 24% of the total market. This coincides with the point in the history of the firm just prior to the departure of a significant group of professionals largely belonging to the engineering arm of the practice who had joined the firm with the merger in 1968. From this point while revenue

falls temporarily and then starts to climb again gradually the gross billings of CAMC continue to climb at a more rapid rate than the firm and consequently the firm's share of market starts to fall in 1974 rapidly dropping in 1975 and arriving at approximately 13% of the CAMC market in 1978.

#### Regional Performance

Detailed results by region are shown in Exhibit A and it is noted that gross billings of CAMC members operating in the B.C. region is more erratic than in the total market as might be expected possibly influenced by economic conditions in that area. It should also be noted that the firm in that region had its peak year in terms of share of market in 1974 when it achieved some 34% of the market covered by member firms before being hit by the 'ripple' effect of the 'demerger' in 1975. At this point its gross billings dropped dramatically before recovering and paralleling the rate of earnings of member firms in subsequent years. At the end of the period the region was enjoying some 20% of the total market. Likewise in the Prairies which achieved 30% of the market in 1975 before it too was hit by the 'ripple' effect with revenue dropping dramatically in the years thereafter and by the end of the period scarcely staying in step with the growth in the regional market and having moved from a position of some 30% of the market in 1975, was enjoying less than half that share in 1978.

In the central or Ontario region the peak year was 1971 when the firm enjoyed 25% of the available market but the full effect of the demerger did not really hit this region until

1975 when its share fell to 15% of the regional market which was a combination of falling revenue while the industry was enjoying increasing growth. At the end of the period the regional results of the firm indicate slow growth compared with the growth of the total market of members of CAMC and a holding pattern in terms of share of market at 15%. Somewhat similar patterns emerge for Quebec and the Maritimes and a more detailed analysis will follow.

#### Functional Performance

Details of this are set out in Appendix B from which can be gained not only the kind of information commented on thus far in examining the regions but also one can form an impression of the 'profile' or major strengths as well as weaknesses in the scope of practice. Using 1973 as an example; general management/organization is 24% share of the total market and yields revenue for the firm of some 1.4 million which out of a total of 7 million makes it a significant area of practice. Likewise in 1973 finance and control enjoyed 18% of the total market accounting for some 1.8 million dollars and computer applications enjoyed some 20% of the market and represented 2 million dollars worth of revenue for ABA so that collectively these three areas of practice account for some 60% of the total revenue of the firm in 1973. By contrast, production, executive search and economic studies while enjoying large shares of the market account for a much lower volume of revenue etc. A fuller interpretation of the significance of these results will appear later.



Looking first at ABA's gross billings in Appendix A & B, which are illustrated by a dotted line against an appropriate scale and looking also at the solid vertical bars illustrating ABA's market share shown against the relevant scale, I will analyze ABA's growth characteristics and performance indicators under appropriate headings below.

### Growth Characteristics

Having examined in a preliminary way the first of the series of charts in Appendix A, I set out below, in much the same way as for the industry profile in Chapter V, a regional and functional profile for ABA with some comments on its sectoral profile. Overall, however, in the period 1971 to 1978 ABA staff complement increased by 27% or at an annual rate of 3.5%. There was no growth in real terms (\$ 1971) in its revenue. The profile of its practice regionally and functionally are as follows with marginal comments about growth characteristics:

#### Regional

|                           |            |   |    |                         |
|---------------------------|------------|---|----|-------------------------|
| Ontario                   | 45%        | ± | 7% | Negative growth         |
| -Federal                  | 20%        | ± | 3% | Some growth             |
| -Rest of Ontario          | 20%        | ± | 2% | Negative growth         |
| Quebec                    | 20%        | ± | 2% | Negative growth         |
| British Columbia          | 12%        | ± | 4% | No growth in real terms |
| Prairies                  | 12%        | ± | 7% | No growth in real terms |
| Maritimes                 | 6%         | ± | 1% | Negative growth         |
| U.S. and<br>International | 5%         | ± | 2% | Negative growth         |
|                           | <hr/> 100% |   |    |                         |

Functional

|  |            |       |     |  |
|--|------------|-------|-----|--|
| General Management<br>(Organizational<br>Development &<br>Planning | 21%        | $\pm$ | 3%  | Negative growth  |
| Data Processing  | 15%        | $\pm$ | 5%  | Steady but modest growth                               |
| Finance and<br>Control   | 12%        | $\pm$ | 6%  | Minor growth   |
| Executive Search   | 10%        | $\pm$ | 2%  | Negative growth  |
| Personnel Services   | 14%        | $\pm$ | 5%  | Steady growth  |
| Economic Studies   | 21%        | $\pm$ | 10% | 200% growth overall or 20%<br>annually compounded rate |
| Operations<br>Management<br>(Production)                           | 2%         | $\pm$ |     | Negative growth  |
| Marketing  | 5%         | $\pm$ | 1%  | No growth  |
|  | <hr/> 100% |       |     |  |

Sectoral

It was not possible to develop a profile in terms of central tendencies for the complete range of sectors served by ABA as was possible in the industry data given above. However, it was possible to identify two major sectors where consistent strength seems to lie, namely, public sector at 40%  $\pm$  3% and financial institutions including insurance and real estate at 10%  $\pm$  3%.

Examining the foregoing overall, one sees much evidence over the period 1971 to 1978 of a static and one might almost say a stagnant practice with negative growth in certain regions, some growth in the public sector at the federal level and a static situation in British Columbia and the Prairies all considered in real terms (\$ 1971). Of particular concern has to be the negative

growth overall in Ontario, including Federal Government, and in Quebec which together account for 65% of the total revenue  $\pm$  9%.

Functionally there is negative growth on the one hand in the general management area which accounts for 21% of the revenue this being to some extent offset by steady growth or some growth in the data processing and finance and control areas. Outside of this there is a notable dependence on economic studies and resource development which generally account for 21% of total revenue but here is a fairly volatile market with swings of 10% either way although for the period covered by the research there is an overall increase of 200% amounting to a 20% annual compounded rate.

Sectorally one sees the main strengths in the public sector and in work for financial institutions with no pronounced central tendency in any of the other sectors.

The immediate reaction to the foregoing might well be of a practice which measured against the industry is adrift with no obvious underlying strategy to guide it. However, before one arrives at such a conclusion one must examine in more detail the influences at work over the period 1971 - 1978 to develop cause and effect relationships some of which may be controllable but others largely external to the organization.

Having examined the first chart of gross billings in total for ABA it is important to recall the influences at work on the total market of CAMC members. These influences were identified in

Chapter V and included the recessionary period in 1972 and in 1975/76, including mention of regional disparities politically, and advancing technology in certain areas. These influences which affected the market nationally are of course an 'overlay' on ABA's results. Given these overriding influences the charts have been drawn in such a way as to afford a comparison, albeit in current dollars, of the industry revenue against ABA's revenue so that as one looks at the slope of the lines one can sense where disparity lies and making allowance for overriding influences mentioned above. A full comparison of industry trends and the influences at work and ABA's trends will be made in the concluding section of this chapter. However, during the course of the present analysis I will be seeking to identify additional causal and intervening variables which might have given rise to the disparity between industry trends and the firm's trends which have produced the situation which has been profiled above.

Until 1974 it would seem that ABA was reasonably in line with the market in terms of its trend and indeed exerted a strong influence on the market by holding approximately 23% of the total market. This market share fell dramatically below 20% in the following years and the single most significant causal variable was undoubtedly the demerger of a part of the practice in 1974 and the ripple effects which followed and which are described in the chronology in Exhibit VIII-1. However, beyond the immediate event the effects appear to continue through to the end of 1978 because it would seem that the steady loss of market cannot be solely attributable to a loss of staff.

Revenue in British Columbia in the next chart is quite erratic through to the end of 1978 but roughly parallels the market in that region although as indicated in the chronology in the case study there was a minor ripple effect in 1975 in that region which had in the year before enjoyed approximately 34% share of the total market and has since fallen to between 22% and 26% of the market.

In the Prairies a predominant position was held by ABA at 22% in 1975 having climbed steadily from 1971 in a buoyant economy as described in the industry section of this report but the second ripple effect, more severe than in British Columbia, occurred in 1976 which rapidly reduced the firm's market share and produced an erratic performance in the remaining years to 1978.

Ontario which suffered the major impact of the demerger referred to in the first section of this chapter felt this effect in combination with the recession in the year 1975 and although the market withstood the recession in the region, ABA's practice did not. From a market share of 25% in 1971, a somewhat erratic performance in 1975 through 1978 has resulted in a slower rate of growth in current dollars than has been the experience in the industry and a resultant market share of approximately 15%.

Quebec felt no impact from the demerger in terms of staff but from a position of 23% of the market in 1973 it has drifted somewhat erratically against the trend in the market enjoying 12% or half the market share of 6 years previously. One can only specu-

late about what influence was the likely causal variable in this situation and that is that ABA was slower to adjust to the 'French fact' than other firms in the industry.

The Maritimes as a region has been described in detail in Chapter V and as far as ABA was concerned in this period its performance is influenced by changing decisions in the firm in establishing a 'presence' in this market and supporting it from the stronger offices. Even so, in 1972 it enjoyed 45% of the total market and in other years, except for 1978, had a share between 15% and 30% of the market, ending in 1978 with a 10% share at which point the office was closed in that region.

Internationally ABA has been slow to follow initiatives and trends in the market from 1974 through to 1978. It had that initiative in 1971 through 1973 and in that last year enjoyed 90% of the revenue of the total industry although admittedly this revenue only amounted to half a million dollars. There has been without question some vacillation in policy in ABA related to undertaking off-shore work and this is reflected in the results.

Functionally, ABA's general management practice has drifted in the last five years moving further away from the trend in the market and ending with a 13% market share as against 24% held in 1973.

In operations management or production ABA does not really have any position in the market.

In marketing the practice has closely paralleled trends in the market enjoying consistently a market share of approximately 16%  $\pm$  2%.

In finance and control, while ABA's performance is somewhat erratic it does appear to stay close to a trend line in evidence in the industry although its fluctuations are greater than in the industry overall. Notable is the year 1976 when ABA enjoyed 25% of the market moving from a position the previous year of only 12%, occurring at that time was a strengthening of this area of the practice recognizing that cost efficiency and effectiveness was the mood of the market and skills were added to the practice accordingly. However, the share dropped to 15% in 1978 while the market continued to move forward during 1977 and only levelled out in 1978.

Data processing (computer applications) is an area of practice identified above, functionally, as a strength in the profile of the practice and it is evident that it has generally paralleled the industry trend in the period 1971 through 1974 and 1976 through 1978. However, the intervening years of 1975 and 1976 saw a significant fall in market share which could conceivably relate to the after effects in the organization following the demerger referred to earlier in the Chapter, and some loss of direction while the priorities of the practice were being re-ordered.

Personnel services are strong in ABA's scope of practice and at the peak in 1977 it enjoyed 37% market share and throughout

the period has paralleled the growth in the market. There was some fall-off in the year 1978, and this can be attributed to the loss of two senior professionals and the consequent organizational disruption.

Executive Search tends to be influenced by industry factors which have been described in Chapter V. However, as against the levelling off of revenue derived from this area of practice by the industry, ABA's revenue and market share fell significantly from 1974 to 1978. This again can be attributable to some lack of direction and policy on the place of Executive Search and in the overall practice with some loss of staff and reorganization resulting therefrom.

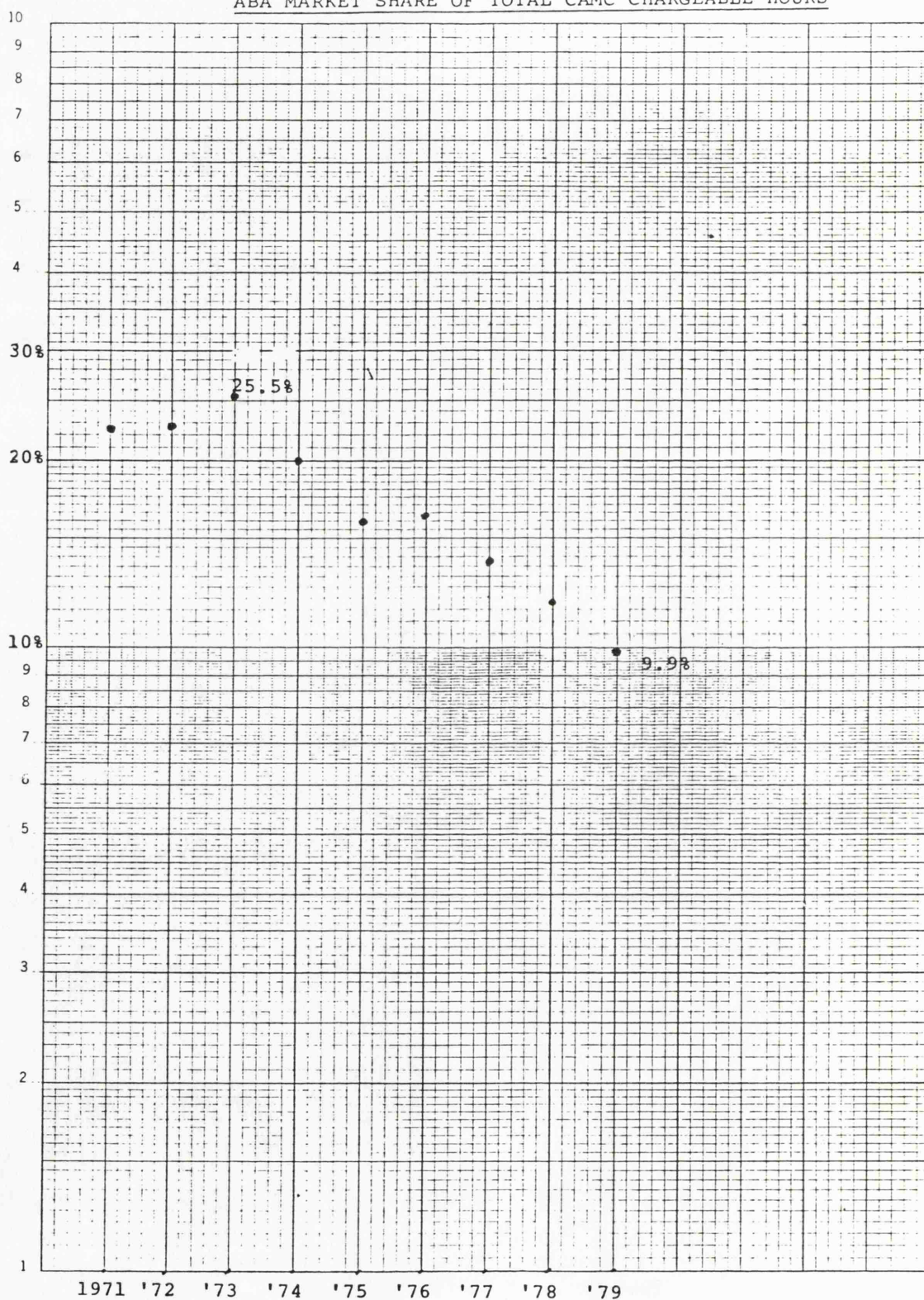
Finally, in the functional area of economic studies and resource development ABA, from 1971 to 1974, outpaced the market and enjoyed 75% of this market. Thereafter market share as well as gross revenue falls dramatically to a low of 12% in 1977 with some slight upturn, although not in parallel with the market in 1978. This shift in trend can be almost totally ascribed to the demerger in 1973/74 in that, included in this functional area are transportation studies, economic development studies, studies involving management science and engineering skills, urban development, and natural resource activity with many of these skills leaving the practice in the middle 1970's. Without question this functional area of practice, largely introduced in the late 1960's to the practice of ABA, was a 'pace setter' and contributed heavily to revenue as well as being highly productive in terms of percentage of hours chargeable which in turn is the result of negotiating large continuous engagements.



ABA MARKET SHARE OF TOTAL CAMC CHARGEABLE HOURS

46 4970

K&E SEMI-LOGARITHMIC #2 CYCLES & 30 DIVISIONS  
KEUFFEL & ESSER CO. MADE IN U.S.A.



Source: Annual Statistical Reports; CAMC/ABA

The foregoing analysis, as it is hoped, introduced some additional causal variables which influence the performance of a consulting practice and some intervening variables, notably the morale of professional staff, which have a ripple effect and a lingering result particularly when there is no evidence of new strategies to deal with the changed emphasis in the scope of practice. This is perhaps one conclusion that one might reach particularly in looking at the overall position of ABA, where, despite no growth in real terms over the period in gross revenue there is a progressive addition at the rate of 3.5% annually compounded of professional staff. One might be tempted to conclude that ABA is striving for growth in the size of its professional staff and holding out that its scope of practice and modus operandi are unchanged in the face of changing market conditions and in the face of no real growth in revenue and in the face of a falling market share. This is graphically and dramatically illustrated in the Exhibit VIII-3. One is tempted to speculate about the determinants of market share against the foregoing industry and firm background. There are external and internal influences at work, a number of which have been mentioned in passing as causal and intervening variables affecting the market and the firm's performance. However, the researcher believes this is beyond the scope of the present research but appears to offer a rich opportunity for further research.

In Chapter V the author examined the market profile of member firms of CAMC from a total, regional, functional, and sectoral viewpoint over the period 1971 to 1978 highlighting the influences which would seem to have affected this profile, taking note of political, social, economic and technological developments during the period in order to

establish a connection with the influences as described in Chapter II. In the case study firm as described in this Chapter supplemented by information in Appendix A it would seem that, apart from the effects of organizational disruption in the early '70's which affect primarily only one area of scope of practice, it has misread the market in other areas of its practice both regionally and sectorally as illustrated by the profiles in Appendix A and the consequence has been a significant loss of market share as illustrated by the Exhibit V-5 in dollars and more particularly in Exhibit VIII-3 in chargeable hours.

#### The Market (Research Question No. 1)

#### Strategic Planning (Research Question No. 2)

In analyzing the case study data to uncover answers to Research Question No. 1 on the external influences affecting the market it seemed inevitable that the results of this analysis overlap into other research areas, notably Strategic Planning (Research Question No. 2), Organization Structure (Research Question No. 4) and Management of Human Resources (Research Question No. 5). ABA's performance in the market during the period under review is affected not only by the same influences which have affected the industry but also has been subjected to the traumatic experience of organizational unrest arising from the demerger. However, as illustrated in the Exhibit VIII-1, one sees strategic planning very much in evidence in the period 1959 to 1974, where the firm identified opportunities in the environment for expanding its scope of practice progressively and also its regional network. In the period 1959 to 1967 the growth in the number of offices and expansion of services might possibly be ascribed as reactive in that the prospective users of consulting services saw an increasing need for such services while the

firm saw opportunities presented by non-audit clients. In the period 1968 to 1974, with an established network of offices the case study firm then tended to be proactive in the market broadening its scope of practice into areas not hitherto explored by firms of management consultants, and certainly not those who were members of the CAMC. Beyond this point however, one sees little or no evidence of strategic planning either reacting to new markets or expanding the network of offices but a return to a reactive posture and more than this an attempt to maintain status quo relative to both the market environment and the competitive environment with less than satisfactory results. The management orientation in effect shifts from the external environment with long term implications, to a 'bottom line' short term orientation, preoccupied with internal influences.

#### Business Development (Research Question No. 3)

Turning now to the author's experience of business development in the case study firm, there is firstly an Exhibit II-3, which synthesizes 10 years experience of a typical 12 month (month by month) cycle of confirmed contracts illustrating the ebb and flow of business development and chargeable activities and the relationship between the two. This exhibit claims to do nothing more than indicate a general tendency in the market at different times of the year to be responsive to management consulting services while at other times it is not. It could be argued that business development efforts tend to diminish with increasing chargeable activity but yet in the author's experience in the large consulting organizations, business development activity tends to be a fairly sustained activity throughout the year suggesting again that prospective clients tend to be only receptive to new work during the early Spring and late Fall. However, it is

difficult to validate this assumption absolutely. Specifically in dealing with the case study firm which is an aligned firm, the author on pages VIII-11 and 12 sets out a series of professional constraints which tend to inhibit the firms in the marketing of their services and therefore have environmental implications. However, it seems evident that these constraints did not unduly inhibit the case study firm in expanding its activities acquiring non-audit clients as discussed on page VIII-15, and as summarized beyond this period up to 1973/74 in the Exhibit V-5.

#### INTERNAL CHARACTERISTICS/INFLUENCES

##### Organization Structure (Research Question No. 4)

In the period 1954 through 1976 (pre-merger with XYZ Ltd.) ABA operated as ABC/MCD, a department of the public accounting/audit firm of ABC & Co. The partner in charge of the department was a chartered accountant, and a partner in ABC & Co.

In the early years, 1954 - 1958, the organization structure was simple since it only involved toward the end of that period, a total staff of twelve professionals. One intermediate rank was introduced mid way through that early period, that of manager. There was a parallel rank in the audit firm which involved the signing of a two year personal services contract which ensured a degree of stability in the management and constrained the individual who became a manager from seeking employment immediately thereafter with a competitive organization. The legal validity of such contracts now might be subject to question since it restricts the freedom of individuals in pursuing employment opportunities. However, in return for the signing of such a contract

the manager became eligible for a bonus payment at the end of each year which turned on a performance appraisal and to some extent also related to the profits of the department. It is important to note that the designation 'manager' described a 'rank' rather than a 'role' in the organization, recognizing seniority and experience rather than greater involvement in the management and administration of the practice or necessarily more supervisory responsibility for projects. This distinction between rank and role in a professional organization is one of the features which distinguishes a professional organization from other types of service organization and indeed from most other types of management structure. In theory and indeed largely in practice, the professional practices his profession constrained only by standards of conduct and ethics prescribed by his profession and the level of experience he has acquired. Direction of his work in a superior/subordinate relationship is a highly sensitive area and calls for special skills at the 'superior' or management level more akin to 'gentle persuasion' than 'outright direction'.

In the second part of the period 1954 - 1967, the late 50's and the first half of the 60's the market for management consulting services grew rapidly and ABC/MCD paralleled and to some extent exceeded the rate of growth in the market. As illustrated in the first section of this Chapter the department expanded its operations regionally and divisionally requiring progressive increases in its management group. Managers continued to be appointed but it became evident that a more senior rank was necessary, particularly at the regional level, not only for administrative purposes, but also to project to the market, in a business development sense, seniority of individuals negotiating

with clients on behalf of the firm. As a department of a firm of chartered accountants it is not possible for an individual to become a partner in the firm unless he is a chartered accountant. During this period 1958 through 1967 one or two individuals were chartered accountants and were made partners largely through an expansion in the scope of practice where members of other professions or disciplines could not be partners and yet in some cases were more experienced and more senior than those who were made partners. For a time this created resentment and generated the feeling of being 'second class citizens' in the organization overall but this was subsequently resolved by the creation of the rank of Principal. This to some extent did solve the problem since principals attended most of the relatively few total firm partners' meetings but this did not change the legal status of the principal from continuing to be an employee rather than an owner. Moreover, the principal was required to sign a personal services agreement somewhat longer and somewhat more binding than that of a manager but in return for this a mechanism was created whereby, to all practical purposes, he received a share of profits rather than a bonus. The distinction made between rank and role carries through to the partner/principal designation although some local office administration did devolve on the partner/principal as the practice in which he was involved increased in size and personnel. However, the overriding consideration in a professional organization is that the primary emphasis is on the individual continuing to practice his profession by working with clients. In so doing it is conceivable that a more senior consultant could be acting as project leader on an assignment staffed not only by other consultants but also by a manager and even by a partner/principal. There is therefore again, this fine distinction which must be made between the

rank of the professional which afford recognition of his experience, and the hierarchical aspects peculiar to a professional organization where role is less distinct than in other types of organization, and finally in the handling of professional engagements, a high degree of flexibility required in the project organization which lasts for a limited time only and overrides both rank and management role.

The merger with XYZ Ltd. solved problems of rank and title in that a separate but subsidiary partnership was set up and the title of Principal was dropped. There are still some legal niceties affecting the definition of partnership as between the firm of ABC & Co. and the firm of XAB & Co. but these were no longer of consequence since the title of partner was generally accepted throughout the total firm. One minor circumstance did however trouble a few non-chartered accountants in the consulting organization for a limited period and that was the choice of name. In 1968 the regulations of the Canadian Institute of Chartered Accountants and those of the provincial institutes were such that the name of any aligned management consulting practice should be sufficiently different from that of the 'main' firm of auditors so that the public at large should not be confused about the nature of the practice. The preferred choice of the merged partnership had been ABX & Co. but the Canadian Institute of Chartered Accountants 'suggested' that this should be XAB & Co. This restriction by the Canadian Institute was subsequently removed in the early '70's resulting in XAB & Co. becoming ABA and indeed it is now possible for consulting firms aligned to public accounting firms to use exactly the same name merely changing the designation i.e. management consultants instead of chartered accountants.



After the merger in 1968 apart from the change in name in 1975, organizational constraints of the kind mentioned above disappeared and the structure both in terms of rank and role developed with partners, managers, senior consultants and consultants with the addition also of technicians to handle the engineering and to some extent certain computer aspects of client assignments. While all partners are theoretically equal there were of course gradations to differentiate between levels of responsibility handled by partners namely senior partner, managing partner, regional partner, group partner, etc. Likewise, other titles were introduced for business development purposes for example marketing director, executive search director, etc., these latter titles having no significance organizationally.

The experience of the author as a participant observer in the case study firm which is a consulting practice aligned to a public accounting firm, tends to support the various comments quoted from authors in the literature survey about the sensitivities and special features existing in organization structures of professionals. Industry leaders both of aligned firms and independents also tend in their responses to the questionnaire to support the hypotheses developed by the author of this research as well as generally supporting the thrust of the comments made by authors in the literature. Drucker (op. cit.) notes that "team design and organization is the key, in all probability, to make functional skill fully effective in the knowledge organization". "To obtain both the greatest possible simplicity and the greatest 'fit', organization design has to start out with a clear focus on underlying key activities needed to produce key results. Organization is a means to an end rather than an end in itself".

The author believes that the structure which evolved over the life of the case study firm tended to fit the criteria described by various authors in the literature review and tended also to be in line with the majority opinion expressed by industry leaders under this heading in the attitude survey. In the author's opinion, mindful of the foregoing, the structure of the firm was sound throughout its history, and consistent with the strategies developed during the different phases of its growth and development. Any analysis of structure however, is not complete without some consideration of the management function, which in a 'people' organization tends to be an all important consideration. This is dealt with in the next section.

#### Management of Human Resources (Research Question No. 5)

##### Organizational Developments

In the preceding subsection I have described certain constraints affecting the environment of the practice of management consulting in ABC & Co. I have also covered certain aspects of the system internally as this evolved which governed the practice of the consulting profession in the firm. I turn now to a description of organizational developments primarily in the area of the personalities involved and their interaction with the system and the outcomes of this interaction.

The period of the late '50's and early '60's was marked by steady and subsequently accelerating growth 'riding the crest of the wave' in the market. The practice was profitable from day one and increasingly profitable through the '50's and on into the '60's largely due to the following factors in order of importance:

- strong, single-minded leadership
- recruitment of experienced staff
- bottom line orientation and tight revenue and expense control
- existing audit client base and support of audit partners
- growth in the market for management consulting nationally.

Possibly the most important of the foregoing factors was the example set by the managing partner whose personality was that of a builder. His was a strong forceful personality with a persuasive manner who at the outset inspired confidence in those who were recruited into the practice and into an ostensibly alien environment dominated by a single profession. He was the link and he had an instinct for and skill in negotiation and business development. In the early years of its existence it should also be remembered that the scope of practice encompassed activity which the rest of the firm could understand although one behavioural aspect of a consulting practice aligned to a firm of public accountants should not be overlooked. In the early years professional work was largely carried out for existing clients of the firm with audit partners having a keen interest in all supplementary services provided. Indeed, the audit partner had a proprietary interest in his client

in that each such client often had a longstanding relationship with the firm and hopefully that relationship would continue on a year by year basis providing a steady income for the firm overall. The audit partner jealously guarded this relationship and needed to be kept informed of all activities outside of the audit which had a bearing on the health of this relationship. As with any other organization so with auditors; personalities and attitudes vary as their interests are affected. There are those audit partners who are traditional in the extreme and regard supplementary services provided by management consultants within their own organization as conflict of interest and are therefore highly suspicious of the value of such services and are reluctant to provide introductions. The other extreme is the audit partner who believes that the connection will be strengthened by offering a 'total service package' to his client and does everything he can to support and participate in new engagements in the management services area. This poses a complex set of relationships for the professional consultant as he undertakes an assignment with an audit client. Firstly, he needs to satisfy the client of the quality and value of his work and establish the kind of relationship with that client such that the client has no hesitation about paying for the services. The consultant must also satisfy his superior in the consulting practice that what is being done is in accordance with the terms of reference which have been agreed and that the engagement is proceeding according to plan and that a satisfactory recovery will be made on the assignment. Thirdly, the consultant finds that he must also convince the audit partner about the value of the work he is doing for the audit client and that nothing in his conduct

of the engagement is such as to jeopardize the ongoing audit relationship either in terms of the interaction of personalities or the possibility of conflict of interest. Fourthly, the consultant needs to satisfy, in general, his own conscience as a practicing professional and indeed his peers in the same profession that what he is doing is in accordance with appropriate standards of conduct and ethics not only pertaining to his own profession but also pertaining to the profession of management consultancy and also the profession of chartered accountancy. Indeed, this is a complex set of organizational relationships and in the practice of consulting in ABC & Co. a system and culture developed as a result of this which served to attract certain types of individual to the firm but also served to discourage and occasionally reject others of different personality, profession, and disciplines.

The occasional difficulty because of this complex set of relationships did arise with the occasional audit client but leadership provided to the practice by the partner in charge was such as to avert organizational crises which might have resulted. In the early '60's however, as the scope of practice expanded, difficulties were encountered in attempting to expand the range of professions involved in the practice. The most notable example of this was ABC/MCD's attempt to develop an operations engineering group. It is possible that the market for the services was not big enough although other firms with established reputations in the field seemed successful. It is possible that the audit client base was such as not to produce enough entrees to sustain a viable practice in

this field. It is also possible that those recruited lacked sufficient business development skills to launch a viable practice but a lingering suspicion is that the 'system' rejected engineering skills at that time both from the audit side and also from within ABC/MCD itself. Despite the strong leadership characteristics of the partner in charge and his drive to expand the scope of practice there continued to be in evidence a lack of mutual understanding and empathy between the financial, information systems, and general management orientation which characterized the rest of the practice and the engineering operationally oriented group which was being 'grafted on'.

The merger in 1968 appeared to solve this type of organizational impasse. However, there was indeed a 'culture shock'. In the minds of both consulting organizations which were merged each saw the other as a 'bunch of accountants' being merged with a 'bunch of engineers' and the behaviour between the two groups in the early months was a cautious 'feeling out' of the other during an 'armed truce'. Such was the personality of the managing partner however, that the merged practice did settle down being helped considerably by the 'bottom line' success it was enjoying and the excitement generated in the minds of both groups becoming involved in new types of engagements and a mix of disciplines. Personality however, played a part in some minor organizational disruption. The computer group involved in 'turn-key' operations could not accommodate itself to the 'survey' type of work handled by its opposite group in ABC/MCD nor could it accommodate itself to the professional and organizational constraints imposed by the system. Likewise,

the former managing director of the merged firm who was functioning as deputy managing partner could not accommodate himself to the culture or the organizational hierarchy within which he was obliged to operate. From a personality standpoint he was an entrepreneur and had hitherto had no constraints on the type of activity in which he could be involved. More than this the organization structure of ABC/MCD while generally 'quite flat' did have a superstructure, essentially resulting in a triangular shape, whereas the XYZ Ltd. was 'circular' in shape with the managing director at the center and his senior professionals 'in orbit' around him shifting and changing in order of significance depending on the nature of the large projects in which he became involved. He left the merged firm after 18 months, having concluded that his organizational style and personality was inappropriate to the style and culture which was being imposed.

A further development during this same period had been to move the second in command of XYZ Ltd. to become a regional partner of the central region of the merged firm XAB & Co. It was mutually agreed after 12 months of this arrangement that the former regional partner of the central region of ABC/MCD should resume his position and that the former number two of XYZ Ltd. should take over as group partner of the practice which had been acquired, with a staff relationship to the regional partner of central region and a direct reporting relationship to the managing partner of XAB & Co. This organizational accommodation appeared to work satisfactorily and satisfy the sensitivities of all concerned but did have the effect of

keeping separate at least for a while the two practices which had been merged.

At about this same time the managing partner of a rival consulting group also an aligned firm decided that he would like to associate with XAB and he was given a position in the central region of some seniority also with a staff relationship to the central region partner and a line relationship, on the face of it at least, to the managing partner. There were probably some aspirations toward the ultimate leadership of the total consulting practice at that time in the mind of this latest addition to the staff.

1970 saw the end of an era in that the continuity of leadership under the managing partner was broken when he was appointed senior partner of the total Canadian firm, audit and consulting. The problem then was who might be considered for succession but with no obvious successor. No one really wanted the job or the responsibility. Somewhat reluctantly with the support of the other three Regional Partners and the endorsement of the partnership at large one of the Regional Partners of a smaller office agreed to take the position. This individual's personality and outlook was not unlike that of his predecessor except that he was rather more direct and abrasive in his manner and perhaps somewhat more entrepreneurial in his outlook. Nonetheless, the momentum of the practice did not slacken and the 'bottom line' continued to grow almost to the point of embarrassment both to the consulting firm and also to the parent organization who could scarcely understand or even accept that what had been



a comparative infant protege in comparatively recent times had become a significant contributor to the income of all partners.

However, as the scope of practice continued to expand largely flowing out of the engineering skill which had been acquired in the merger there were several influences at work which produced a crisis in 1974. The consulting practice in the early 1970's became 'the golden haired boy' of the firm overall. The practice which had been acquired for its management science and engineering skills had to an extent retained its identity and had become a 'golden haired boy' within the consulting firm, and to some extent was regarded with pride mixed with some jealousy and resentment. With the expanding scope of practice particularly in the area of urban planning and municipal planning, more architects were being recruited under the direction of one of the partners who was himself an architect, extremely single-minded, hard driving, and entrepreneurial in his outlook. A point in time was reached when the firm overall, particularly audit partners and to some lesser extent the more traditional consulting partners became concerned about the inroads being made by the practice into architecture, viewed as a completely separate profession and somewhat far away from the rules of conduct and ethics as understood by most of the firm. Not the least of which was the concern about the risks involved if the practice became involved in project control or implementation of architectural plans when it would become difficult, if not impossible, for the governing body of the firm to make judgments about the quality of professional practice since no architect was part of the governing body of the firm totally. A hard decision was

therefore reached that the limit had arrived in the application of architectural skills within the practice. This resulted in 1974 in a 'mass exodus' of a number of key professionals some of whom had joined the merged firm from XYZ Ltd. and others who had been recruited more recently as the scope of practice expanded and new engagements emerged. The region primarily affected was the central region of the firm but the 'ripple effects' continued on for 18 months affecting two other regions whose attitude toward the executive decision was mixed but more importantly whose loyalty to the main firm was affected by what was seen to be vacillation in arriving at the 'demerger' decision which took 18 months to reach. Along with this 'demerger' there followed two further significant changes, one, the departure of the recently appointed managing partner of the consulting firm as the result of the firm's loss of confidence in his leadership and secondly the decentralization of the consulting offices with a direct reporting relationship to the senior partner, former managing partner of the consulting practice with head office coordination through one individual rather than direction as had previously been the case. This whole development was a traumatic experience for the total firm producing uncertainty and loss of confidence in the minds of most, after a long period of remarkable and indeed unusual success and there began a period during the last few years of the '70's when the consulting firm endeavoured to sort itself out and stabilize the operation in a new organizational format. The effects of this, not surprisingly, were in evidence on the bottom line of certain regions and on the firm as a whole.

This 'drift' in organizational purpose and uncertainty in reporting relationships lasted through to 1979 when the solution appeared to be, to merge each of the consulting practices into the local offices of the audit practice so that the managing partners of each office would then report directly through to the senior partner of the firm overall and the local offices would then offer a total range of services to the clients in its area with the managing partner of each office being responsible for the combined results of all activities in that office.

Twelve months of this type of arrangement was sufficient to indicate that a viable consulting practice, a different business from audit, could not be sustained in this manner since it would become increasingly fractured and shrink and that there would be a loss of community and interdisciplinary activity which would affect morale. Accordingly, this organizational decision was reversed with a number of organization changes being made and the practice was again centralized under the control of a managing partner reporting directly to the senior partner and the governing board.

#### Management of the Practice

Reviewing what has been said at this point about the history of this consulting organization and the constraints, advantages and influences to which it had been subjected over its 26 years of existence, it is interesting to speculate on what factors have contributed most to its success and continuity. One can say success in spite of a number of set-backs in more recent years

and the uncertainty which affected its operations in the second half of the 1970's. In this sub-section I propose to comment on various aspects of management style which influenced the performance of the consulting practice over the years. From this would seem to flow everything which happened over the years and from this might flow debate, with benefit of hindsight, on the appropriateness of management and organizational behaviour at various key points in the history.

Management of professional organizations is different. The primary concern of the professional is to practice his profession and serve his clients. He is not particularly skilled in management but rather has been trained to give advice to others and more than this as a member of a profession has learned to have due respect for his fellow professionals and to beware of giving contrary advice. A community of interest and a sharing of ideals and standards of conduct is the hallmark of the professional. The management of other professionals is somewhat in conflict with this kind of relationship. A practising professional has a personal pride in all of the work that he does and should not be able to be easily persuaded to change his opinion or advice being offered to his client. More than this, the professional is conditioned not to permit the promotion of his services blatantly or in a commercial sense. Business development therefore is not typically an attribute of many professionals whose hopes for success generally depend upon association with others in a community, social or business sense and that beyond this, reputation is what builds a practice rather than overt activity in the marketplace.

In managing a professional organization, management needs to strike a delicate balance between professional practice and commercial instinct. It is probably fair to say that in the history of this firm from a personality and a professional standpoint the first managing partner contained the right blend of skills as to be able to observe these niceties and bridge the gap between professionalism and commercialism and also bridge the gap between professions such that a business was built and success was achieved measured both in terms of the bottom line and also the size of staff of the business at the end of this period. Needless to say the singlemindedness and the control orientation of the individual were also appropriate to optimizing the results of the firm from the standpoint of growth and share of market and also profitability and return to the partners. Undoubtedly, the task was made somewhat easier by conditions in the market from 1954 - 1970 in that there was a growing recognition of the need for outside advice from an emerging profession such as management consultants so that in summary one might conclude with the observation that the period called for 'the right man at the right time' and the rest followed.

The 1970's in the firm perhaps called for a different management style in that while the market for consulting services continued to grow, it had become established in the late '60's and its growth proceeded but at a reduced rate. One might speculate that the management style appropriate to rapid growth and building of an organization is not appropriate when the market slows and the task is to maintain an organization rather than

build it and consolidate the gains made in an earlier period and to reduce the expectations of those involved. Looking to top management's ultimate responsibilities as being long term planning and providing for succession one might perhaps wonder whether sufficient attention was given to these two key responsibilities by the original managing partner as one approaches 1970. Long term planning was essentially 'more of the same' and succession was not obvious. One could of course debate whether long term planning can be done in this type of business and one could also debate how many candidates there might be who would be willing to risk their reputation in continuing such a success record; 'a tough act to follow'.

Another aspect of management in this situation is a successor's capacity to manage an organization of this size in this type of business, not having grown up with it since its beginnings. There is the problem of 'span of command' and the problem of earning the respect and support from the group of professionals who are more likely to make judgments about the successor's professional competence than his managerial ability.

The 1970's provide ample evidence through several organizational disruptions and the discontinuity in leadership and possibly the inappropriateness of the management style and conceivably organizational structure which characterise this period. To what extent was the uncertainty during this period a function of the market in which the practice operated or was it uncertainty about management style or was it that there is an optimum size for this type of organization which requires a different organ-

ization structure than the types which were tried? These and a number of other questions of an organizational and control nature might be raised as one examines particularly the performance of the practice in the 1970's and this period is the main focus of my research.

### Summary

The case study firm, through its history, as set out in the Exhibit VIII-1, depicts an almost classic example of the growth phases in the professional services type of business and goes beyond to illustrate the effects of crises on strategic thinking and the management of the human resource. This is fairly well described above, noting cause/effect relationships at critical points in the life of the firm. This case study illustrates very forcefully the critical nature of turnover of professional staff and therefore the importance of leadership and wisdom in the management of human resources. The author has examined in detail the events occurring in the case study firm in the '70's and postulates certain cause/effect relationships which would seem to have contributed to loss of market share, absence of strategic thinking, and organizational 'drift' during the later years of the '70's. As certain authors in the literature have indicated, one moves from the entrepreneurial style through to the professional management style across the spectrum of the different stages of organizational development and growth. The case study firm would seem to have had no difficulty with this up to the early '70's. However, authors from the literature review note particularly that a key quality of leadership and management is the ability

to think strategically and react quickly where significant changes occur in the environment and within an organization. Unfortunately, in the case study firm, aligned as it was to a public accounting firm, potential conflict emerged with the expansion of the scope of practice into areas increasingly remote from the unidisciplinary nature of the total firm. Additionally, in the late '60's and early '70's insufficient time and attention was given to leadership succession and to the qualities needed to manage the human resources in the face of the emerging conflict over scope of practice. As several authors have pointed out, morale in an organization, and particularly a 'human organization' is a critical factor which must be managed in such a way that organizational goals and individual goals remain congruent. This was not in evidence, the net result of which, was a demerger of an important part of the practice with ripple effects through to the middle '70's. A further aspect of the loss of this area of practice was that the professionals who left had tended to be part of the more successful and innovative part of the practice with a very flexible outlook on rates in the interests of maintaining high productivity. This attitude towards rates and chargeable time tends to be consistent with the priority as seen by industry leaders through the attitude survey and would also seem to have been consistent with the behaviour of the industry through the '70's as illustrated in the Exhibit V-4. The conclusions that one might tentatively reach there is that despite a continually expanding market and an environment favourable to the continued growth of management services as indicated in the Exhibit V-5, there was an absence



of strategic thinking on the part of the leadership of the case study firm in the early '70's which might in some way have contained the conflict and minimized the disruption. Up to the time of the disruption in 1973 when the case study firm enjoyed a 25% share of the market one might say that it had pursued an aggressive strategy with an expanding scope of practice. After 1973 it pursued a defensive strategy, endeavouring to preserve its scope of practice despite the loss of key professionals in a significant number, with the consequent affects on morale. The defensive strategy flowed from ambivalent leadership and increasing influence from the public accounting professionals one of whose preoccupations, by the nature of that business, is the maintenance of standard rates. This aspect of the defensive strategy would seem to the author to have contributed materially to the loss of market share where there was a failure to appreciate the strength of the competitive environment and the sensitivity to some extent of the market to price. One further aspect of this defensive strategy would seem to the author to have contributed materially to the loss of market share where there was a failure to appreciate the strength of the competitive environment and the sensitivity to some extent of the market to price. One further aspect of this defensive strategy was that while maintaining rates with less regard for productivity, the former growth strategy was kept in place with staff hiring proceeding at the same rate as hitherto. On the face of it the rate and growth strategies were incompatible in that with a falling market share, lower percentage of time billed and an increasing relative cost of staff with other costs relatively fixed produced a much less satisfactory profit over the remaining years of the '70's.

Key Success Measures/Controls (Research Question No. 6)

Dermer (op. cit.) makes the point, that in the context of system design, one should first understand the strategic mission of the organization. In the conceptual framework Exhibit III-1, the importance of defining the purpose of an organization comes first, requiring a definition of an organization's mission, goals (objectives), strategies for achieving those goals, and policies and programs to effect implementation. In a multidisciplinary management consulting firm one can visualize a multi-sided matrix to describe the mission and goals of the organization. For example in a multidisciplinary consulting firm aligned to an audit firm there might in the first instance be a prescription as to the proportion of work to be done for audit clients as against that for non-audit clients. There could be a prescription as to the balance to be achieved between work in the public sector as against the private sector. There could also be a target to aim for in developing non-competitive as distinct from competitive work. Additionally, there might be strategic goals set for volume of work to be secured in different regions (or territories), likewise in different functional areas of practice (which involves attention to the scope of practice) and finally some determination might have to be made about which industry sectors should be targets for business development, this year, next year, or in the longer term. Overriding the foregoing considerations in the firm's business there might well be specifications about growth rate, share of market, and profitability requiring some shorter term balancing and trade-offs across the foregoing prescriptions to achieve the latter more important overriding requirements. In Dermer's (op. cit.) terms all of the foregoing could be considered intervening variables which will influence

success (key success factors) and it is essential that there is a good understanding throughout an organization of these various facets of its mission, goal, and strategies for achievement, so that the expectations of the organization and the measures of success are understood.

Overriding all of the foregoing possibly, is the project organization developed to handle individual client's needs. Such arrangements are temporary in nature and consist of from 1 - 20 consultants of different disciplines all of whom are spending most of their time on a continuing basis for a limited period satisfying the needs of a particular client. Without doubt it is not difficult to measure the success of a project both in terms of client satisfaction and also in financial terms for the organization. One can also monitor the quality of the professional practice involved by reviewing the adherence to professional standards in evidence in the work. One could also, however, view a project and its execution as an intervening variable in that it might be taking up the time of key professionals who might otherwise be more gainfully employed in a number of other areas.

Finally, and perhaps more importantly in relation to all that has been said thus far, are the causal variables at work in the organizations external environment. What shifts and changes are taking place in that environment both in terms of markets, competition, political, social and economic shifts, all of which are encountered by the professional, particularly as he, on behalf of his firm, endeavours to develop new business. The extent to which this external environment impacts the organization can again and must

indeed be monitored using various measures of success be they measures of the effectiveness of business development time against negotiated contracts; the success ratio achieved in competitive situations; the penetration being achieved in specified industry sectors; the rate of growth in regions, functions, sectors, etc. etc.

These are the measures of success as the organization interacts with its environment. The measures of success of these carried over into the organization combined with how well it deals with the internal influences at work can be translated into such measures of success as percentage chargeable time, percentage of standard rate realized, percentage of compensation to revenue, percentage profit to revenue, rate of growth achieved, share of market achieved nationally, regionally, by function, sectorally, and so on. While at first the multidisciplinary organization aligned to a public accounting firm might appear in so many respects an almost impossible organization to deal with either strategically, structurally, or operationally, it is possible for such an organization to function systematically and to have a reasonably well designed system to monitor its performance and the framework suggested by Dermer (op. cit.) is a useful vehicle for describing the complexity involved and the simplicity which emerges once the complexities are known. I have benefitted from the writing of this author in ordering my thoughts and approach to this aspect of my research.

#### Strategic (Performance Indicators)

I refer back now to the conceptual framework Exhibit II-1 and III-1 to structure my findings under this topical heading.

As with the industry data, the data for ABA has been analyzed using constant dollar 1971 figures to develop gross revenue per professional employee, professional hours per employee and average rate per professional hour over the period 1971 to 1979. Enough has probably been said by way of explanation in Chapter V, dealing with industry data on the interactive effects of volume (professional hours per employee and price, average rates per hour), to carry over to the examination of the firm's performance.

Briefly the trend in ABA in terms of professional hours per employee has been contrary to the industry trend and an examination of the working papers and charts shown in the Exhibit V-3, will illustrate that ABA was much more productive than the industry in 1971 and well below the industry average in 1979. I mentioned in the preceding sub-section that ABA had progressively added staff during the period under review despite no real growth in revenue terms. ABA was highly productive in the years 1971, 1972 and 1973 achieving 1400 hours per professional employee or something in excess of 80% of controllable hours chargeable in that year which falls dramatically during the period of demerger in 1974/75 and continued to fall from 1976 to a low in 1979 of 1200 hours per employee or approximately 72% of controllable hours chargeable.

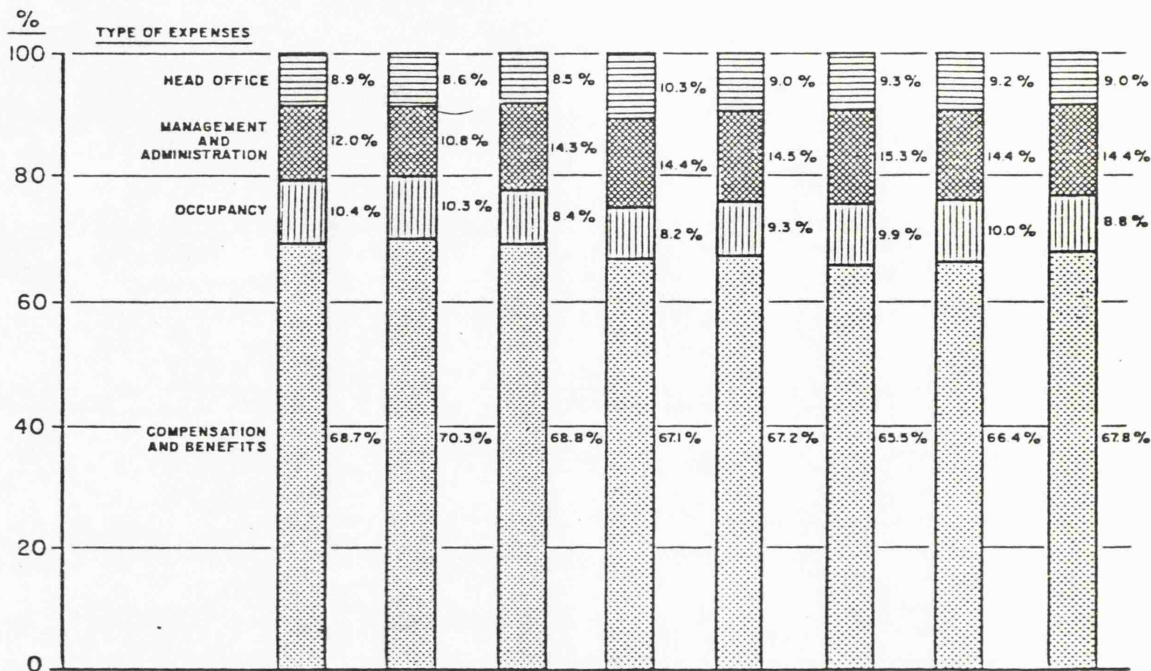
As against this trend, ABA has consistently held to the policy of maintaining its average rate per professional which has been approximately \$30 per hour in constant \$ 1971 throughout the period. This is as against the industry trend of steadily mov-

ing down to a rate per hour of approximately \$25. ABA has therefore seemed to emphasize its rate in the face of an increasingly competitive and maturing market and suffered some loss of productivity in professional hours per employee compounded by its insistence in hiring additional staff. This translates into the result shown in ~~Exhibit V-3~~<sup>Appendix B</sup> on the third chart of gross revenue per employee which has steadily fallen to slightly below the industry average in 1979. One can therefore speculate in the face of this whether the priorities were properly ordered in the balance being maintained between chargeable hours as a percentage of controllable and recovery rate as percentage of standard.

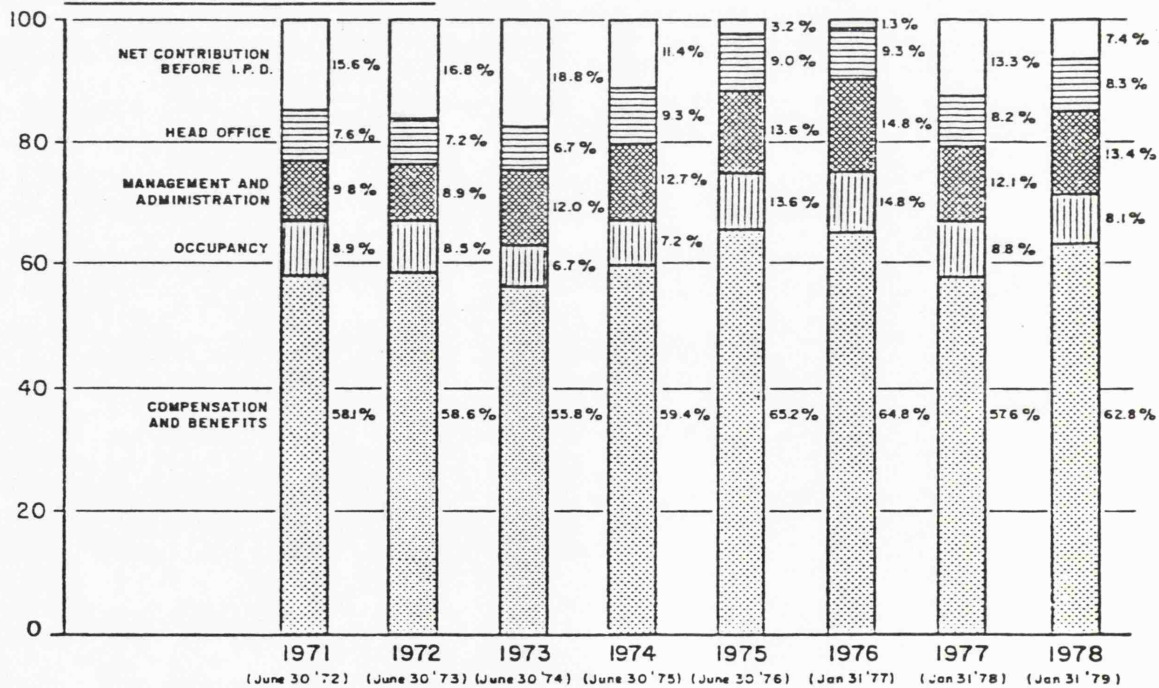
An influence which was mentioned under the industry section was the possible effects on professional staff of falling productivity or less 'business' on the part of professional staff. The practitioner needs to be busy to satisfy himself that he is practising his profession. Possibly the progressive additions to staff were made in the hope that the sheer weight of numbers of professional staff would force those held responsible for business development to develop more and more business to develop a satisfactory chargeable percentage level. It is obvious from the chart that this was a 'fond hope' and again one could speculate whether after the 'crisis' of 1974 and 1975 more attention should have been given to strategic issues and longer term planning on scope of practice and the implication for the dependent variables of percentage chargeable and realised rate, as measured in combination, on productivity or dollars per employee. Gross revenue in the third chart has fallen dramatically, professional staff has increased progressively, pro-

## ABA - TOTAL

## EXPENSE AS % OF TOTAL EXPENSES



## EXPENSE AS % OF REVENUE



Source: Case Study Firm (ABA) Financial Records.

ductivity in hours per professional has fallen with implications for morale, the key cost element in the operation of the practice namely professional salaries is 'eating up' more revenue and ones attention is then drawn to the profitability of a firm under these conditions over this period. This will be dealt with in the next sub-section of this section.

### Operational (Financial)

#### Expense Analysis

Analysed in the 'Exhibit VIII-4', are the expenses of the firm expressed in two ways, expenses as percentage of total expenses and expenses as percentage of total revenue. To illustrate, although it will be obvious from the exhibit, that compensation and benefits of staff are by far the largest single item of expense representing some 68% on average of total expense and varying from 55.8% to 65.2% of revenue during the years 1971 - 1978. Appendix G at the end of this report is an analysis of the different kinds of expense by region from which it is possible to make some judgments about the relative profitability of regions. A comparative analysis of the foregoing performance data in general terms will be made in the next section of this chapter.

#### Profitability

This subject is discussed under two sub-headings below firstly, the total performance of the firm and then briefly a comment by regions.



- Total Firm

A review of the earlier facing exhibit dealing with expenses, bottom half of the exhibit, indicates that the most profitable year for the firm as a whole was 1973 when 18.8% of revenue was earned in profits. A reference to IPD is merely interoffice transfers, so that the profit itself overall is not disturbed.

The significance of the compensation and benefits item of expense is readily apparent as is also the relatively fixed nature of the remaining expenses including head office administration, management and administration, and occupancy.

The comments made about growth/share of market in the previous section and the analysis of organizational developments in an earlier section can be seen translated in this exhibit to the performance of the firm from a profitability standpoint. Undoubtedly, the impact was severe and the ongoing weight of overhead being carried by the firm as well as the loss of revenue and delays in releasing staff no longer needed, all accumulate to produce the results shown in 1975 and 1976. Then begins a slow but hesitant recovery through the 1977 and 1978 which the author of this research knows to be a continuing process through 1979 and 1980.

- Regional

Appendix G contains the exhibits to illustrate the profitability data of individual regions and it is worth noting that the eastern region is least affected by the organizational developments in the middle 70's for reasons which were brought out earlier in this Chapter. The two western regions, Prairies and B.C. are most affected, the former being the most recent of the regions to be set up and the latter having had a greater than average loss of staff as a ripple effect from 1973/4.

Examining first the total expenses of ABA and each expense as a percentage of total expenses the full impact of the cost of compensation and benefits can be appreciated. This tends to, in ABA, fluctuate around 67% of total expenses  $\pm$  2%. The remaining expenses accounting for the remaining 33% of total expense are relatively fixed with the least variation, as might be expected, in occupancy costs and most variation in management and administration. Head office expense at around 9% is relatively minor. Of particular note, however, is the jump in management and administration costs starting in 1973 and holding at a level of approximately 14½% through the balance of the period as against approximately 11%  $\pm$  1% in the years 1971 and 1972. The jump in management and administration expense occurs around the time of the demerger and one might speculate that the

effects of the demerger called for heavy top management involvement not only in ABA but from the parent organization of ABC & Co. which would be charged into ABA's operations. That this level of expense continues, is perhaps indicative of the time and effort required 'dealing with the ripple effects' and 'putting out fires' and dealing with morale difficulties and possibly trying to solve reduced momentum in evidence in the practice as described above in business development to keep staff productive. The weight of this additional cost undoubtedly is reflected in the reduced net contribution figures for 1974 through 1978. The best year was 1973, just prior to demerger, when apparently the best 'winning combination' of revenue and expense was experienced. This is well illustrated in the charts which were examined in an earlier sub-section when the peak in gross revenue was achieved as was the maximum market share, and it coincided with the best combination of chargeable percentage and realized rate during the whole of this period. The high level of revenue in that year looking at the bottom half of the exhibit where expense is expressed as a percentage of revenue, was sufficient to dampen the impact of increasing management administration charges which had started to affect profitability, in attempts to stop the prospective demerger.

The bottom half of the chart expressing expenses as a percentage of revenue perhaps illustrates quite dram-

atically the high degree of 'leverage' exerted by different levels of gross revenue on a relatively fixed cost operation. Incremental increases and decreases in revenue tend to be immediately transferred to the bottom line or net contribution. Such variability in expenses as there might be, lies in the area of compensation and benefits but the hiring and firing of professionals is not an activity in a professional firm which is engaged in lightly. Morale is a key consideration and in any event, one can never be certain that the skills which are scheduled to be released from the practice today might not be needed next month or even next year and the replacement of both the skills and experience of professionals is a difficult, expensive, time consuming task. It is perhaps useful to attempt a correlation between the gross revenue shown in the charts in Appendix A, for the total practice (in Exhibit V-5) and for each of the regions with the expenses shown as a percentage of revenue in the bottom half of the expense bar graphs set out in Exhibit VIII-4 and in Appendix G. The best combination is achieved with one year lag for which one might offer a reasonable explanation although perhaps not conclusive. To illustrate, using the bar graphs, 1972 was the most profitable year when 18.8% revenue was the net contribution of the practice. 1974 was the peak year for revenue as shown in the graphs of gross billings. Professional staff was building rapidly from 1972 through 1973 until it peaked in 1974

at 166 from a base in 1971 of 118 professionals. The full impact of this rapidly increasing staff load was not felt until 1974 and despite the peak in income in that year this was insufficient to absorb fully the costs of professional staff which had been added progressively in earlier years.

The combination of the demerger which followed immediately thereafter coupled with the recession in the succeeding two years 1975/76 and the delay in releasing staff as a result of falling revenue exerted its influence on the net contribution to the point of near extinction in 1976. In 1976, however, revenue had started to increase but not sufficiently to overcome the lag in adjusting professional staff to the numbers being required for the volume being experienced. In the two years thereafter there is improvement in the net contribution position but not such as to return to that enjoyed in the three years 1971, 1972 and 1973, because while staffing had been adjusted to some extent to a levelling off in volume, the impact of heavier management and administration costs by some 4% of total expense as against earlier years had a direct effect on net contribution. Thus, one can possibly trace the effects of the changing expense structure, organizational disruption, recessionary influences, and a heavy and slow moving compensation expense on perhaps the most important key success measure, profitability, as well as understand the

behaviour of expenses of a relatively fixed cost operation under variable operating influences. The same pattern tends to repeat itself in the regional analysis of the four main regions of central (Ontario), Quebec, Prairies and British Columbia. The Maritimes and International are not considered to be separate profit centers and are absorbed by Quebec and Ontario respectively but the volume of each is not sufficient by reference to the size of these two largest regions to affect the conclusions reached about the behaviour of expenses and their impact on net contribution. Of particular note, however, are the ripple effects referred to in earlier sections in this chapter. The largest region, Ontario, had a sufficiently broad base as to be able to absorb the full impact of the demerger although at a break even point in 1975. The two western regions, however, who lost professional staff as a result of the demerger but in subsequent years, were not large enough nor broad enough based in terms of their scope of practice to 'weather the storm' and the loss of revenue notably in the Prairies in 1976 raised the impact of ongoing compensation costs as well as incurring heavy management and administration costs producing the 37.9% net loss. Likewise, the B.C. region which received the first of the two ripple effects had losses in 1975 and 1976, again not being able to keep compensation and benefits of professional staff in line with falling revenue and also being impacted by the burden of

management and administration costs which although heavier in earlier years had been cushioned by very high revenues flowing from a very large regional market share.

#### Operational (General)

As will be evident from the summary statistics in Exhibits V-1 and V-5 and in Appendices A and B, the case study firm and indeed the industry as a whole as represented by the member firms of CAMC collect data on gross billings such that it is possible to determine trends in the market and share of market in total, regionally, by function, and sectorally. The first part of Chapter V, pages V-8 to V-22 analyzes the trends in the market over the period 1972 to 1978 by reference to the environmental influences which would appear to have affected the market in one way or another. Reference has been made where appropriate to political, economic, social, cultural, technological, geographic and physical/ecological developments which exerted an influence nationally, regionally and sectorally insofar as the research has been able to determine. These influences collectively have 'shaped' the market and influenced the trends or profiles of each segment of the market, regionally, functionally or sectorally. From an industry standpoint as well as that of the case study firm therefore gross billing or gross revenue is a key success factor/measure and would seem to be critical as a first indication of how the market is developing on a year-by-year basis, and where opportu-

ities as well as threats are emerging in the overall environment.

Beyond this point the individual firm is left to determine its own key measures of success, and data is provided in the Exhibit V-3, providing a comparative analysis based on gross revenue, or productivity per professional, per professional hour, and the average rate per hour realized.

Pages VIII-15 through 27 sets out in some detail the performance of the case study firm regionally, functionally, and sectorally against the industry 'norms' in an endeavour to account for the loss of market share illustrated in the Exhibit VIII-3, in the period 1973 through 1979. This first key measure is primarily of market size and market share and characteristics of the market. Turning now to measures which are internal rather than external, reference is made to the Exhibit V-3.

Apart from gross revenue, industry members (i.e. members of CAMC) provide information on the number of professional employees and it is therefore relatively easy as well as particularly important to measure productivity and the first Exhibit V-3 indicates productivity measured in constant dollars in \$ 1971 per professional for the case study firm compared with the other members of CAMC. There would seem to be a slight falling off of productivity over the 1971/79 period for members of CAMC other than the case study firm shows a marked falling off of productivity. A



second measure of productivity is to use chargeable hours (i.e. hours billed to client), instead of dollars in the second exhibit for the industry as a whole with the exception of the case study firm one notes an improving level of productivity while the case study firm shows a progressive loss of productivity measured in terms of hours per professional charged to clients. These two measures of productivity collectively might be considered the second key success factor or measure how much gross revenue per professional is derived from client activity or, put another way, how much of a professional's time is charged to clients as a percentage of his total available time.

A third key measure of success, although related to the second measure is, what rate per hour has been obtained for the time which has been charged to clients. The third exhibit indicates that for members of CAMC, excluding the case study firm, the rate per hour in constant dollars 1971 has fallen from \$32 to \$25 approximately in the period 1971 through 1979 while the case study firm has been able to maintain a rate of approximately \$30 which is indicated on the two trend lines in the exhibit immediately following the Tables. However, as mentioned earlier, this measure and the previous measure of hours per professional are interrelated and there are costs associated with maintaining a rate, such as loss of productivity, while there are costs associated

with maintaining productivity such as a reduction in the billing rate, and so the complex problem which has to be resolved on a continuing basis is to find some balance in these two critical measures of success, as one relates to the market in the first place as one part of the environment, and as one relates to the competition in the second place, as the second part of the environment.

A fourth measure of success related directly to the first measure and indirectly to the second and third measures is the level of business development activity. On pages II-35 through 39 is an exploration of the underlying concept of business development in a professional services firm. The first task is determining at the outset how much professional time, which might otherwise be devoted to the handling of client work, should instead be diverted to developing new work and beyond this how much more/less time should be devoted to 'sole source' opportunities as against 'competitive' opportunities keeping in mind the potential size of the prospective assignment as well as 'the state of the present workload'. The second aspect examined was the cyclical nature of development activity in the Exhibit II-3 where on the one hand it would seem that no matter how much business development time is spent at certain times of the year the acceptance or confirmed rate of new business is low while on the other hand in a counter cyclical manner it would seem that when a professional firm is busiest it is less inclined to engage in development activity whereas with the lead time necessary to develop

new business this is precisely the time when business development time is necessary. It would seem to the author therefore, that, having in mind the importance of the profitable use of professional time as one of the authors quoted has said, that "it is a wasting asset", the measure of business development time spent and against this the success rate of confirmed contracts against the time spent is a key measure of success or otherwise. In the expense Exhibit VIII-4 the significance of compensation and benefits as a percentage of the total expense of the case study firm and as a percentage of revenue can be readily assessed. It is also apparent that the remaining expenses as a percentage of total expense are relatively fixed at least within a fairly broad range of activity. One might therefore conclude that this is another key success factor/measure, in the sense that it should be closely controlled and varied to match the level of activity of the firm. However, as has been mentioned in the literature and also in the responses from industry leaders, the professional staff represented by the compensation and benefits expense is the only asset in the organization which earns revenue and turnover is critical to the revenue factor in the life of the firm. One might perhaps accept as a general proposition that professional staff as the only earning asset cannot be made truly variable with revenue in light of the vagaries of the market and temporary downturns in the fortunes of an individual firm. However, as the major controllable expense there is an ongoing need in the long term to monitor trends in the environ-

ment both in the market for consulting services and also competitive influences so that the profile of human resources in the firm remains relevant and in balance and such as to maintain an acceptable billed ratio.

The sixth key success factor/measure is profitability although this is a resultant variable the significance of which is in evidence in the bottom half of the expense exhibit numbered VIII-4. Using Dermer's (op. cit.) terminology, the main causal variable in the performance of a professional firm is the gross revenue or billings which is a function of the market and competitive environment and is determined in the first instance and in large measure by the level of commitment to business development activity. Intervening variables are the rate structure and cost of professional staff which are interactive which in turn produce the dependent variable, the percentage of available professional time charged to clients. The resultant variable after allowing for relatively fixed administrative costs is profitability.

It is interesting to note that Hofer in Strategy Formulation: Analytical Concepts (op. cit.), as mentioned earlier, suggests that "it is normally far more useful to limit the list of key success variables to say five factors and spend more time getting a proper weighting among these five.....". The foregoing analysis of the case study firm would seem to confirm the wisdom of this comment.

One key success factor not hitherto mentioned but referred to by Tilles (op. cit.) is that "in service organizations it is the skill of the professional staff, which is of paramount importance and judgment as to the adequacy of the quality of most services are subjective..... objective quality standards do not exist. A consulting firm has no objective way of appraising the soundness of its recommendations". This key success factor/measure which can be assessed in organizations selling a tangible product is possibly the key factor which cannot be measured in a professional services organization except in the most general terms such as repeat business with one client or some general assessment of reputation in the marketplace or the maintenance or increase in share of market.

There is perhaps adequate testimony in the Exhibit V-4 and VIII-4 and Appendices A, B, and G to illustrate that the case study firm is strongly controls oriented. This is possibly not too surprising having in mind that it is a consulting practice aligned to a public accounting practice where the monthly profit and loss statement for the total firm, by region, office, and by group within an office is standard procedure. Other ongoing controls apply to business development activity both in terms of time spent and engagements secured. There are detailed work-in-process records by contract indicating hours spent and dollars accrued with billed and unbilled data as part of the record. There are comprehensive analyses of accounts receivable as well as chargeable time statistics on a

monthly basis for the total firm, for each region, for each office, for each functional group within each office. There are also personnel records related to recruitment activities and scheduling of time of staff professionals with clients and on research and training activities, and indeed, in the author's experience as comprehensive a set of performance data as one might wish for in any business.

### Conclusion

Referring back to the Exhibit II-5, which is a concept highlighting the interaction between the two critical variables in the practice; the realized rate per hour and the percentage of time charged to clients based on an assumption that within fairly narrow limits the costs of operating the business are relatively fixed. Using this model within relatively short timeframes, it is possible to predict the level of profitability possible for a professional group, a region or the total firm based on whatever 'trade-off' might be made between the percentage of standard rate achieved and the percentage of chargeable time achieved. These two variables are to some extent interactive. It seems fair to say that in the case study firm, operational and financial controls are well established and understood. This is not to say however, that the firm and the business it is in is under control. It is one thing to measure results, and set up controls, it is another to act on them. As discussed under the previous section entitled Management of Human Resources in the case study firm, and analyzing the history of the firm from 1973 through 1979, there would seem to have been an absence of strategic thinking such as to match the resources to the environment both competitive and market, and by pursuing a defensive strategy

the case study firm shifted its focus to the short-term tactical considerations and focused strongly on profitability, while deploring the unsatisfactory level thereof. Given the industry data available plus a complete array of strategic and operational data, financial and other, on the operations of the business, the firm and its leadership would seem to have lost sight of the type of strategy which had built the practice during the preceding 20 years, namely a strong external orientation with a "bottom-line which takes care of itself" to a pre-occupation with the short term bottom-line concern, losing sight of changes in the market and in the environment and increasing competitive pressures.

APPENDIX G

ABA- EXPENSE ANALYSIS BY REGION



ABA EXPENSE ANALYSIS

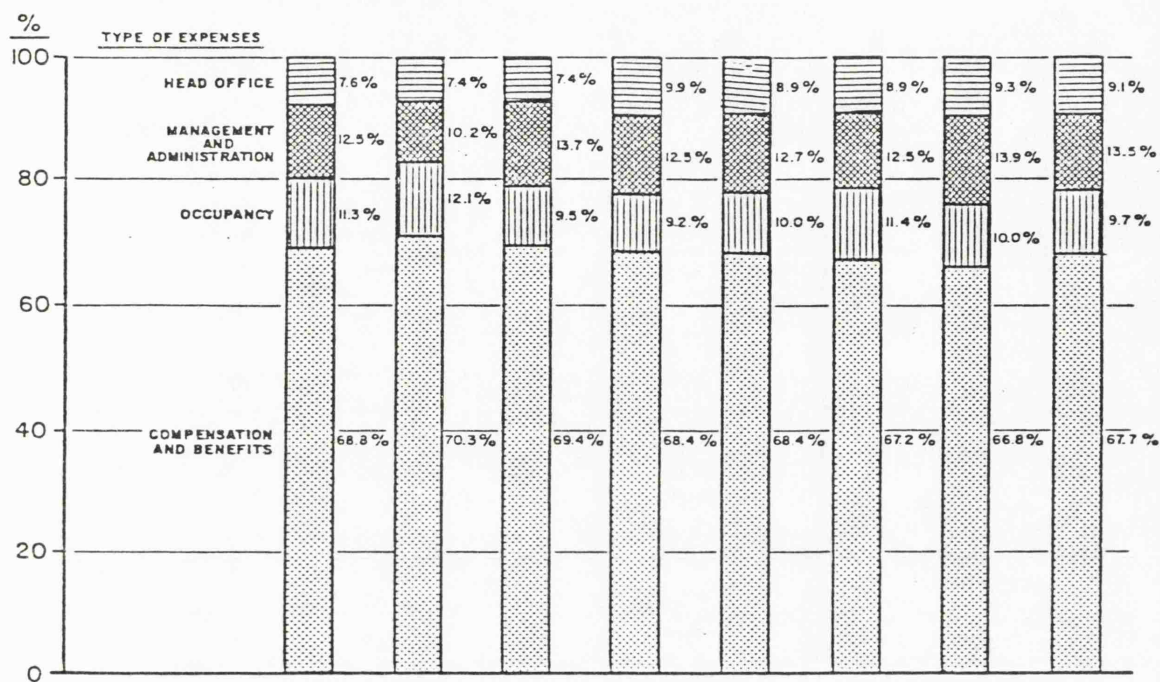
INDEX

PAGE NO.

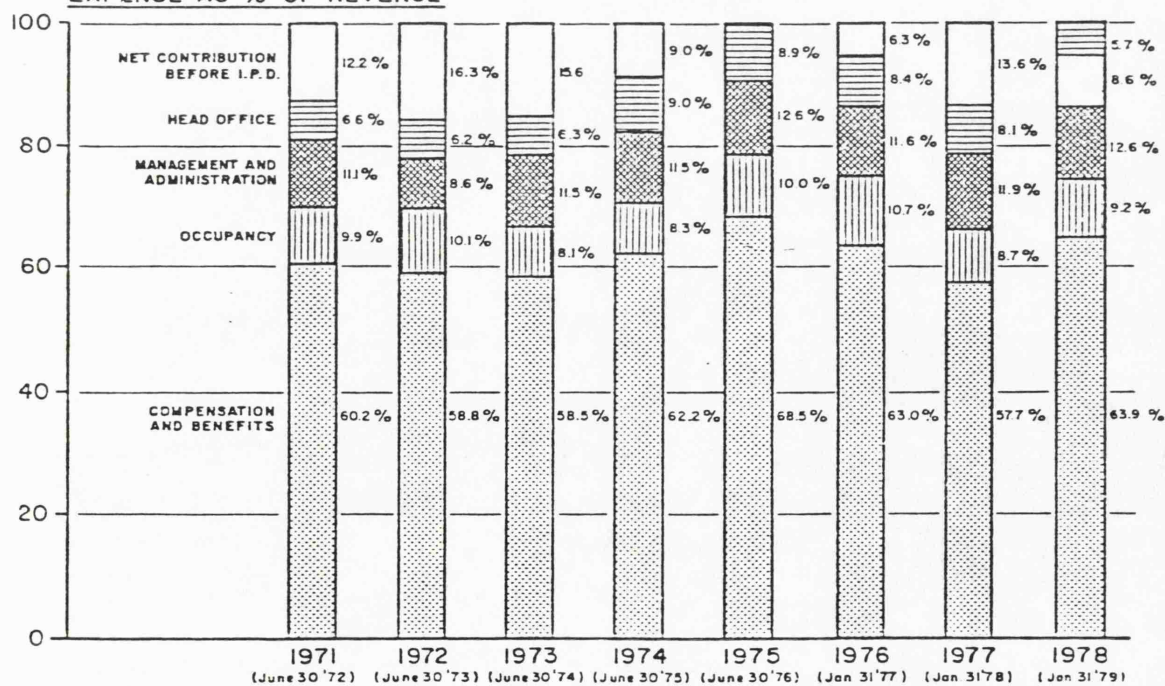
|                 |     |
|-----------------|-----|
| CENTRAL REGION  | G-1 |
| EASTERN REGION  | G-2 |
| PRAIRIES REGION | G-3 |
| B.C. REGION     | G-4 |

## ABA - CENTRAL REGION

## EXPENSE AS % OF TOTAL EXPENSES



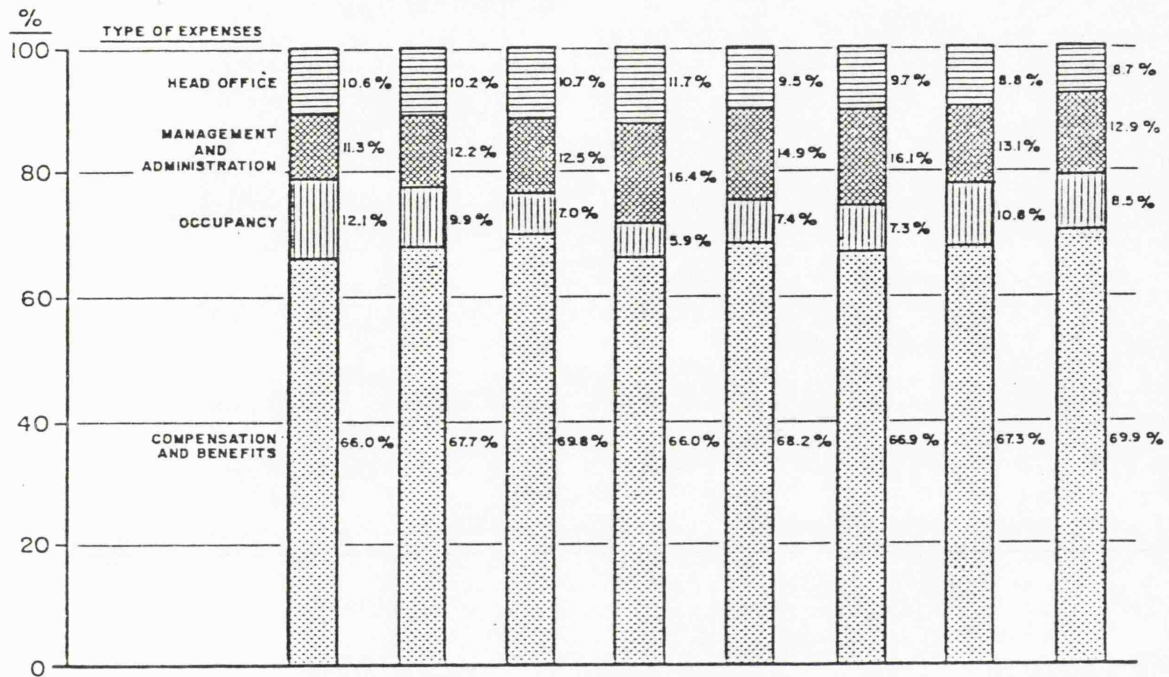
## EXPENSE AS % OF REVENUE



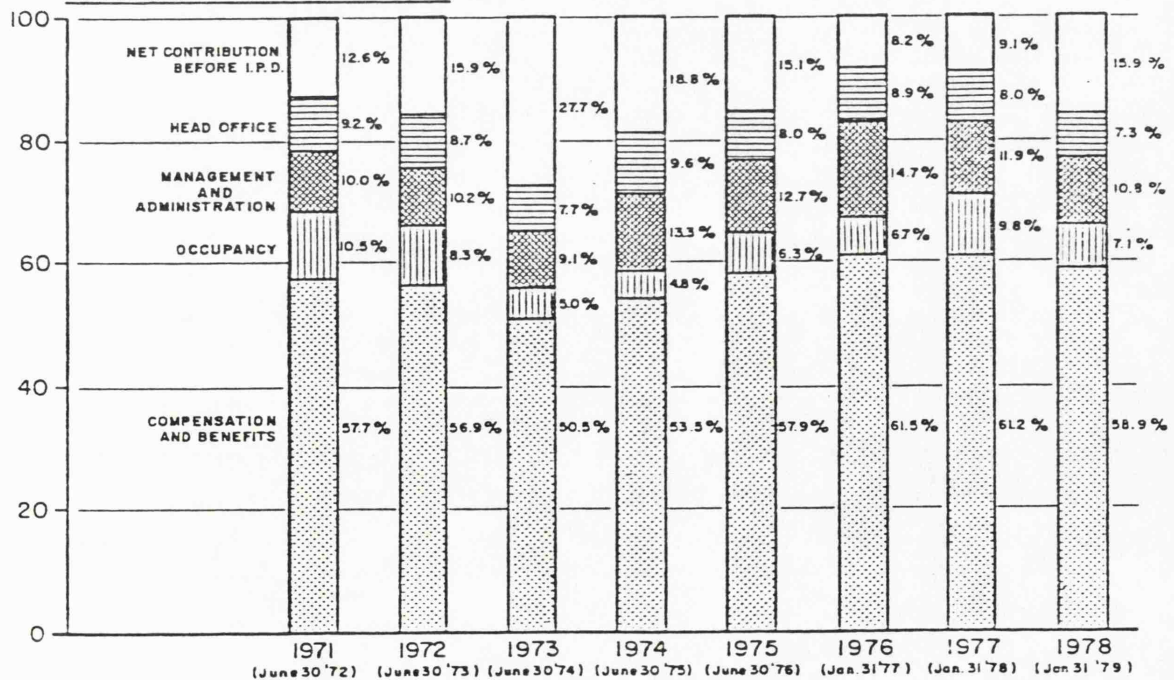
Source: Case Study Firm; Financial Records.

## ABA - - EASTERN REGION

## EXPENSE AS % OF TOTAL EXPENSES



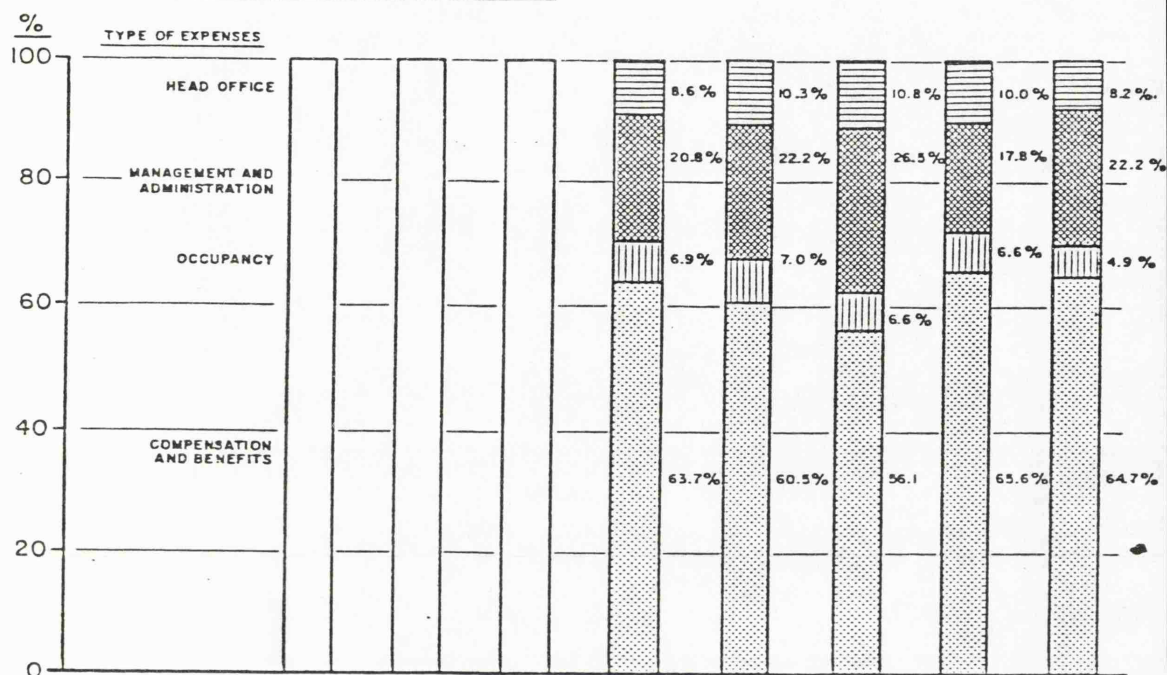
## EXPENSE AS % OF REVENUE



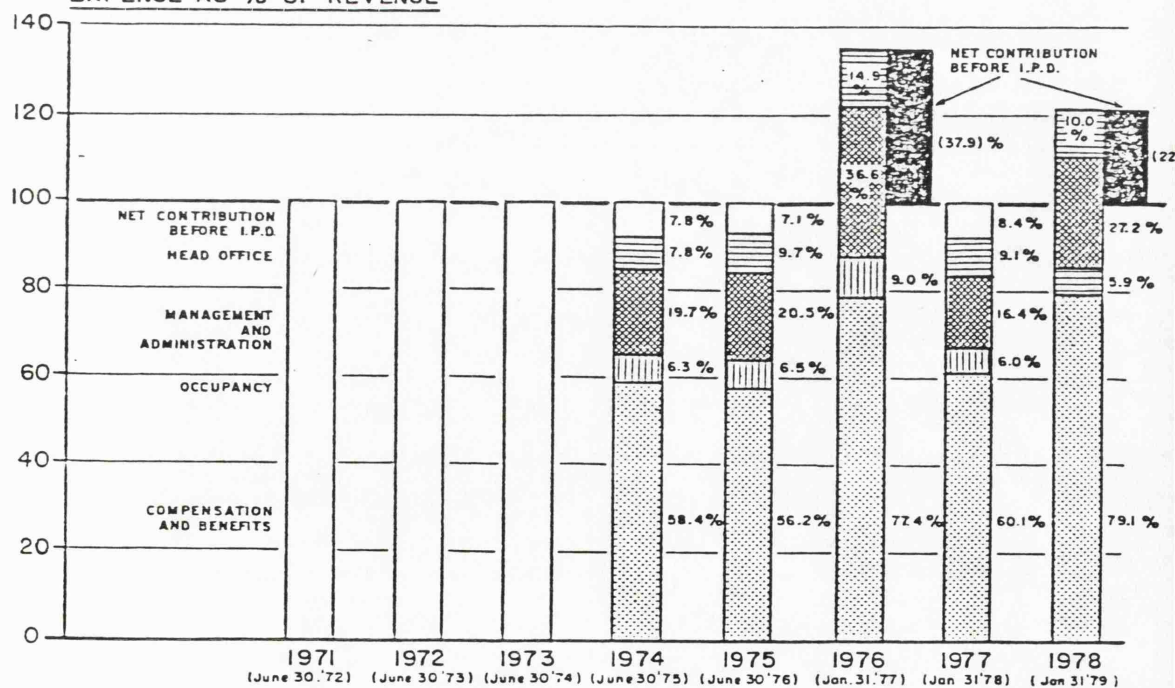


# ABA - PRAIRIES REGION

## EXPENSE AS % OF TOTAL EXPENSES



## EXPENSE AS % OF REVENUE





## ERRATA

### VOLUME II

- Page VIII - 16, line 26 - delete 'emjoyed'; insert 'enjoyed'.  
Page VIII - 21, line 10 - delete 'tremds'; insert 'trends'.  
Page VIII - 32, line 1 - delete 'afford'; insert 'affords'.  
Page VIII - 53, line 13 - delete 'Exhibit V-3'; insert 'Appendix H'.  
Page Viii - 54, line 6 - delete 'Exhibit V-3'; insert 'Appendix H'.  
Page VIII - 59, line 18 - delete 'Exhibit V-5'; insert 'Exhibit V-4'.  
Page VIII - 61, line 8 - delete 'sufficent'; insert 'sufficient'.  
Page VIII - 62, line 7 - delete 'Exhibit V-5'; insert 'Exhibit V-4'.  
Page VIII - 63, line 5 - delete 'Exhibit V-3'; insert 'Appendix H'.  
Page VIII - 63, line 16 - delete 'Exhibit V-3'; insert 'Appendix H'.  
Page VIII - 63, line 21 - delete 'Exhibit V-3'; insert 'Appendix H'.